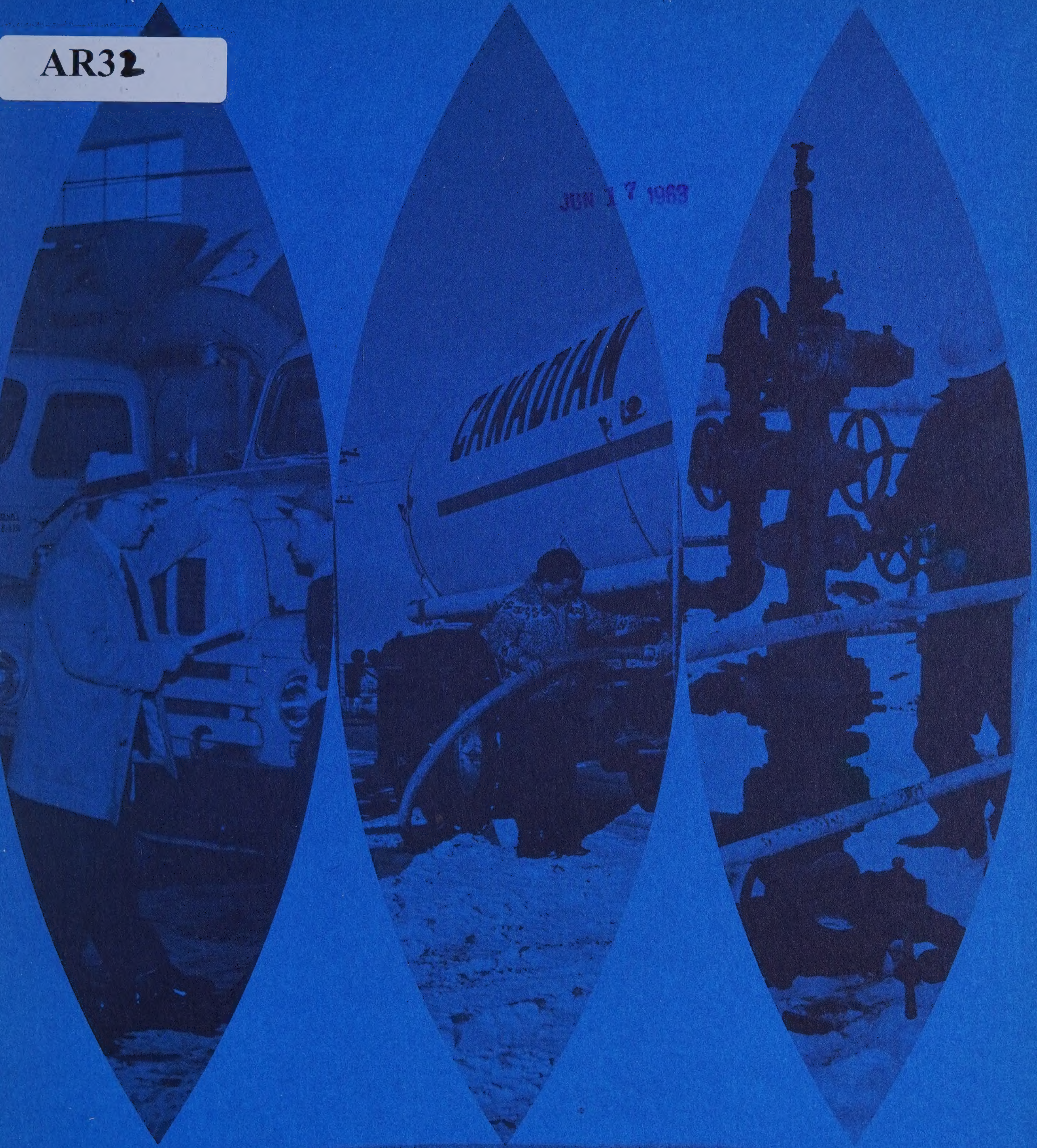


CANADIAN HYDROCARBONS LIMITED

EPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED MARCH 31, 1963

CANADIAN HYDROCARBONS LIMITED IS CANADA'S LARGEST INTEGRATED MARKETER OF PROPANE, AND PROPANE BURNING EQUIPMENT.

The Annual Meeting of the Company is to be held at the Head Office Monday June 24th, 1963, at 10 A.M.

HIGHLIGHTS

Earnings rise to new high of $1.48 a share, from $1.16

Gallonage ahead 10.9% to a record of 39,306,526 gals.

Gross revenue increases to new peak of $11,001,960

Expenditures on new facilities approach $3.5 million

Additional propane-supply sources aid market expansion

Underground storage approaches capacity use

Deliveries to customers' storage tanks are automatic.

REVIEW OF THE YEAR

We are pleased to report that for the second year in succession, your Company has established new records in both gross revenues and earnings. Gross revenue including profit on sales of fixed assets and investments, in the year ended March 31, 1963 increased 10.6% to $11,001,960 and net profit rose to $1,133,857 equivalent to $1.48 per share on 762,065 shares from $871,818 or $1.16 per share on the 754,096 shares then outstanding.

Gallons of propane distributed rose to a new high of 39,306,526 gallons, an increase of 10.9% over 1962. This was somewhat less than anticipated, due to the unusually mild weather experienced across Western Canada.

The Company's financial position at the year end was further strengthened, working capital of $3,068,024 being $909,915 greater than at March 31, 1962 and providing a ratio of current assets to current liabilities of 2.9 to 1. Capital expenditures made during the year included appropriations for additional customer storage tanks, modernization of the delivery units and a second expansion of the Acheson plant. Through its fiscal agents, the Company arranged for the private placement of $2,000,000 6¼% Series "B" 20 year debentures at par to provide a portion of the funds for the additions to assets.

Canadian Hydrocarbons and its subsidiaries are continuing their policy of claiming capital cost allowances for income tax purposes in excess of depreciation recorded in their accounts. As a result of this policy, no income taxes are payable for the year ended March 31, 1963 and, in addition, the companies have a substantial loss for tax purposes which may be applied against taxable income in the future. Based on studies by Canadian Hydrocarbons and its subsidiaries and assuming normal additions to capital assets, it is estimated that capital cost allowances claimed for income tax purposes will exceed depreciation recorded in the accounts for a number of years.

The modernization of the transportation fleet is helping to keep operating costs competitive. Studies to reduce cost of transportation are being carried out continuously, as it is the largest single item of operating cost.

The response to the "Metergas" tank program introduced a year ago has been most gratifying with more than 50% of the net increase in bulk installations for the year involving "Metergas" contracts. The net increase in bulk installations was 3,183 compared to 2,918 the previous year.

The underground storage at Hughenden again proved of value during a period when demand was in excess of normal availability of propane supply. Product was withdrawn from storage at capacity rates to meet the heavy demands of our customers and various wholesale accounts. It is expected that substantially increased use will be made of Alberta Underground Storage during the current year and indications are that it will operate, for the first time, at close to capacity.

The Company's 50% interest in Blackfoot Hills Pipeline Limited has been sold to Canadian Husky Oil Limited. A major increase in availability of propane in Western Canada is expected during the next eighteen months. Several new gas processing plants are due to commence production and in addition supplies of propane should become available from several points along a product pipeline under construction from Empress, Alberta to Winnipeg, Manitoba. These new sources of supply should make a valuable contribution in the development of new markets in Saskatchewan and Manitoba.

Your Directors have been gratified by the progress made over the past few years in developing improved techniques for the administration of its widespread merchandising organization. Efficiency of management has been improved by placing the maximum possible responsibility for operating decisions with the branch managers.

Your Directors wish to record their appreciation for the important contribution made by the senior management group, the branch managers and all employees in achieving a fine record of improvement over the past five years. The Company is now in a position to move ahead even more rapidly in the foreseeable future.

Submitted on behalf of the Board of Directors,

CANADIAN HYDROCARBONS LIMITED

Chairman of the Board

President

Handling customer accounts with our new peg board accounting system, direct from branch offices saves time and paper work.

Canadian Hydrocarbons

CONSOLIDATED

as at March 31,

Assets	1963	1962
CURRENT:		
Cash	$ 579,547	$ 500,323
Short term deposit	500,000	—
Accounts receivable	2,206,158	2,217,161
Inventories at the lower of cost or market	1,342,992	1,127,220
Prepaid expenses	96,786	134,861
	$ 4,725,483	$ 3,979,565
INVESTMENT IN AFFILIATE:		
Shares at cost ($12,000) and advances	$ 189,180	$ 180,540
FIXED—AT COST:		
Customers' installations	$ 7,015,564	$ 5,552,836
Buildings and equipment	5,222,349	4,459,061
Automotive equipment	2,101,653	1,681,231
Land	281,327	214,340
	$14,620,893	$11,907,468
Less accumulated depreciation	4,839,934	4,187,214
	$ 9,780,959	$ 7,720,254
OTHER:		
Deferred charges less amounts written off	$ 103,955	$ 213,461
Financing expenses less amounts written off	229,041	151,674
Excess of cost of shares of subsidiaries over net book value at dates of purchase	2,324,339	2,323,320
	$ 2,657,335	$ 2,688,455
	$17,352,957	$14,568,814

On behalf of the Board:

R. A. Rich, Director.

D. M. Deacon, Director.

AUDITORS'

TO THE SHAREHOLDERS OF
CANADIAN HYDROCARBONS LIMITED:

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and its subsidiaries as at March 31, 1963 and the consolidated statements of earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our infor-

mited and its Subsidiaries

ALANCE SHEET

63 and 1962

Liabilities	1963	1962
CURRENT:		
Accounts payable	$ 1,295,257	$ 1,615,426
Income and other taxes payable (Note 2)	22,644	90,930
Dividend payable April 1, 1963	76,194	—
Current maturities of long term debt (Note 3)	263,364	115,100
	$ 1,657,459	$ 1,821,456
LONG TERM DEBT (Note 3)	$ 5,737,048	$ 3,609,900
DEFERRED INCOME (Note 4)	$ 683,965	$ 938,057
Shareholders' equity		
Capital (Note 5)—		
Authorized—3,500,000 shares of no par value		
Issued — 762,065 shares (1962—754,096 shares)	$ 5,567,885	$ 5,474,283
Retained earnings (Note 6)	3,706,600	2,725,118
	$ 9,274,485	$ 8,199,401
CONTINGENT LIABILITY (Note 8)		
	$17,352,957	$14,568,814

(See accompanying notes)

REPORT

ıation and the explanations given to us and as shown y the books of the companies the accompanying conolidated balance sheet and consolidated statements of arnings are properly drawn up so as to exhibit a true nd correct view of the state of the affairs of Canadian Iydrocarbons Limited and its subsidiaries at March 31, 963 and the results of their operations for the year then nded, in accordance with generally accepted accounting rinciples applied on a basis consistent with that of the receding year.

CLARKSON, GORDON & CO.,
algary, Alberta, May 22, 1963. Chartered Accountants.

Canadian Hydrocarbons Limited and its Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended March 31, 1963 and 1962

Earnings

	1963	1962
REVENUE:		
Sales	$10,411,891	$ 9,472,402
Installation rentals earned	508,071	437,856
	$10,919,962	$ 9,910,258
EXPENSES:		
Cost of gas and merchandise sold	$ 5,319,141	$ 4,902,726
Operating, selling and administrative expenses (Note 7)	3,400,956	3,185,336
Interest on long term debt	272,279	181,045
Depreciation	908,393	729,294
Amortization of financing expenses	8,997	7,457
	$ 9,909,766	$ 9,005,858
Earnings from operations	$ 1,010,196	$ 904,400
Profit on sales of fixed assets and investments	81,998	35,446
Earnings before income taxes	$ 1,092,194	$ 939,846
Provision for income taxes	—	56,987
Reduction of prior year's income taxes (Note 2)	(41,663)	—
	$ 1,133,857	$ 882,859
Minority interest in earnings	—	11,041
Net earnings for the year	$ 1,133,857	$ 871,818

Retained earnings

	1963	1962
Balance at beginning of year	$ 2,725,118	$ 2,034,109
Add net earnings for the year	1,133,857	871,818
	$ 3,858,975	$ 2,905,927
Deduct:		
Dividends paid or declared	$ 152,375	$ 150,809
Deferred charges written off	—	30,000
	$ 152,375	$ 180,809
Balance at end of year	$ 3,706,600	$ 2,725,118

(See accompanying notes)

Canadian Hydrocarbons Limited and its Subsidiaries

NOTES TO FINANCIAL STATEMENTS

March 31, 1963

1. Subsidiaries.

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries. The accounts of subsidiaries operating in the United States have been converted to Canadian dollars on the following bases: current assets and current liabilities at the exchange rate in effect at the year end, fixed assets at the rate in effect at the date of the transaction, and expenses and revenues at the average monthly exchange rate.

2. Income taxes.

For income tax purposes the companies intend to claim capital cost allowances in excess of depreciation recorded in the accounts during the year ended March 31, 1963, the effect of which is to eliminate income taxes otherwise payable for the year of $498,000 and in addition, to create a loss for income tax purposes. A portion of this loss will be carried back to 1962 resulting in a recovery of income taxes paid in that year of $41,663.

The net book value of depreciable fixed assets at March 31, 1963 is $3,019,000 in excess of the amount upon which depreciation will be allowed for income tax purposes in the future.

3. Long term debt.

	March 31, 1963	March 31, 1962
6½% Sinking Fund Debentures, Series A due August 15, 1981, subject to annual sinking fund payments of $70,000 in each of the years 1963 to 1966 inclusive, $140,000 thereafter to 1971, $210,000 thereafter to 1976 and $280,000 thereafter to 1980	$3,430,000	$3,500,000
6¼% Sinking Fund Debentures, Series B due December 15, 1982, subject to annual sinking fund payments of $40,000 in each of the years 1963 to 1967 inclusive, $80,000 thereafter to 1972, $120,000 thereafter to 1977 and $160,000 thereafter to 1981	2,000,000	
5% to 7% notes and mortgages of Canadian Propane Consolidated Limited maturing on various dates to 1968	419,074	225,000
Finance contracts payable by Canadian Propane Consolidated Limited maturing on various dates to 1967	151,338	
	$6,000,412	$3,725,000
Less instalments due within one year included in current liabilities	263,364	115,100
	$5,737,048	$3,609,900

Financing expenses are being amortized over the terms of the issues.

4. Deferred income.

Deferred income consists substantially of customers' installation rentals received in advance and is taken into income over the terms of the rental agreements.

5. Capital.

During the year ended March 31, 1963, the Company issued 6,019 shares of its capital stock for a cash consideration of $78,247 upon exercise of share subscription warrants which expired on August 14, 1962 and 1,950 shares for a cash consideration of $15,355 upon exercise of stock options.

40,750 shares of the Company's capital were reserved at March 31, 1963 as follows:

34,000 shares for options granted to officers to purchase shares at prices ranging from $6.4125 to $9.78 per share and exercisable on various dates to February 9, 1968.

6,750 shares under an Employee Stock Option Plan. Options have been granted to employees under the Plan to purchase 3,150 shares at prices ranging from $7.52 to $13.34 per share, exercisable on various dates to December 31, 1968.

6. Dividends.

The Trust Deed securing the 6½% Sinking Fund Debentures, Series A and 6¼% Sinking Fund Debentures, Series B restricts the declaration and payment of cash dividends which would reduce consolidated retained earnings (consolidated earned surplus as defined by the Trust Deed) below $2,000,000 would reduce consolidated net current assets below $1,500,000.

7. Earnings.

Included in operating, selling and administrative expenses for the year ended March 31, 1963 are the following:

Remuneration of executive officers	$81,663
Directors' fees	21,200
Legal fees	18,411

8. Contingent liability.

Customers' finance contracts under discount or guaranteed amount to approximately $193,000.

Canadian Hydrocarbons Limited and its Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended March 31, 1963

Funds were provided from:		
Operations		
Net earnings for the year		$1,133,857
Add items not involving cash		
Depreciation	$ 908,393	
Deferred installation rentals earned	(159,234)	
Amortization of financing expenses	8,997	
Other	(16,441)	741,715
		$1,875,572
Additional long term debt		
Debentures	$2,000,000	
Other	390,512	2,390,512
Fixed assets sold		472,149
Shares issued		93,602
Other		5,525
		$4,837,360
Funds were applied to:		
Fixed assets purchased		$3,415,227
Long term debt instalments		
Debentures	$ 110,000	
Other	153,364	263,364
Dividends		152,375
Financing expenses		86,364
Other		10,115
		$3,927,445
Increase in working capital		$ 909,915

Canadian Hydrocarbons Limited and its Subsidiaries

YEARS IN REVIEW

Summary of consolidated statements of earnings for the twelve months ended on the dates shown

	March 31 1963	March 31 1962	December 31 1960	December 31 1959	December 31 1958	December 31 1957
REVENUE:						
Sales	$10,411,891	$9,472,402	$7,330,066	$7,110,643	$7,156,164	$8,075,187
Installation Rentals Earned	508,071	437,856	351,082	386,415	455,159	389,020
	$10,919,962	$9,910,258	$7,681,148	$7,497,058	$7,611,323	$8,464,207
EXPENSES:						
Cost of gas and merchandise sold	$ 5,319,141	$4,902,726	$3,679,832	$3,390,909	$3,847,054	$4,294,198
Operating, selling and administrative expenses	3,409,953	3,192,793	2,587,115	2,436,125	2,521,852	2,728,112
Interest	272,279	181,045	130,659	145,684	195,535	255,411
Depreciation	908,393	729,294	604,900	595,099	635,930	654,841
	$ 9,909,766	$9,005,858	$7,002,506	$6,567,817	$7,200,371	$7,932,562
EARNINGS:						
Earnings from operations	$ 1,010,196	$ 904,400	$ 678,642	$ 929,241	$ 410,952	$ 531,645
Profit on sales of fixed assets and investments	81,998	35,446	85,066	37,230	49,519	20,843
Earnings before income taxes	$ 1,092,194	$ 939,846	$ 763,708	$ 966,471	$ 460,471	$ 552,488
Provision for income taxes	(41,663)	56,987	91,311	190,008	126,139	129,232
	$ 1,133,857	$ 882,859	$ 672,397	$ 776,463	$ 334,332	$ 423,256
Minority interest in earnings	—	11,041	40,366	85,074	83,891	150,269
Net earnings	$ 1,133,857	$ 871,818	$ 632,031	$ 691,389	$ 250,441	$ 272,987

Financial and other information

	March 31 1963	March 31 1962	December 31 1960	December 31 1959	December 31 1958	December 31 1957
Working capital	$3,068,024	$2,158,109	$1,425,080	$2,012,558	$1,351,672	$ (469,697)
Working capital ratio	2.9 to 1	2.2 to 1	2.3 to 1	2.9 to 1	1.9 to 1	.9 to 1
Long term debt	$5,737,048	$3,609,900	$2,009,500	$2,292,000	$2,535,000	$1,746,616
Minority interest	$ Nil	$ Nil	$ 290,461	$ 715,172	$ 717,014	$ 676,806
Shareholders' equity	$9,274,485	$8,199,401	$6,866,370	$6,414,339	$5,826,645	$4,865,549
Number of shares outstanding	762,065	754,096	700,000	700,000	700,000	580,000
Shareholders' equity per share	$ 12.17	$ 10.87	$ 9.81	$ 9.16	$ 8.32	$ 8.39
Net profit per share	$ 1.48	$ 1.16	$ .90	$ .99	$ .36	$ .47
Cash flow (net profits + non cash expense — non cash income)	$1,875,572	$1,577,165	$ 951,638	$1,092,269	$ 655,534	$ 953,469
Purchase of fixed assets (net)	$2,943,078	$2,299,409	$ 612,556	$ 407,342	$ 455,559	$ 111,895
Cash flow per share	$ 2.46	$ 2.09	$ 1.36	$ 1.56	$ .95	$ 1.64
Interest coverage before depreciation	8.3	10.2	11.5	11.7	6.6	5.7
Interest coverage after depreciation	5.0	6.2	6.8	7.6	3.4	3.2
Percentage of cash flow to shareholders' equity	20.2%	19.2%	13.8%	17.0%	11.2%	19.6%
Fixed assets including excess cost of shares of subsidiaries	$12,105,298	$10,043,574	$8,233,088	$8,283,128	$8,471,869	$8,554,217
Propane sales	$6,674,612	$6,157,192	$4,836,400	$4,969,771	$5,035,693	$5,769,572
Merchandise sales	$2,982,902	$2,670,567	$2,314,721	$1,971,542	$2,011,202	$2,225,508
Propane gallonage sales	39,210,201	35,424,893	25,438,897	23,850,000	21,918,506	25,353,796

CANADIAN HYDROCARBONS LIMITED
and its Subsidiaries

Directors
Gordon H. Allen, Q.C.
Richard A. Bethell
Alan T. Christie
Donald M. Deacon
J. Howard Kelly, Q.C.
Dr. Courtnay Pitt
Raymond A. Rich
George C. Solomon
David R. Williams, Jr.

Officers
Raymond A. Rich, Chairman of the Board
Donald M. Deacon, President
Donald C. Ferns, C.A., Vice-President and Treasurer
Frederick T. Phillips, Secretary
Dennis A. Anderson, Assistant Treasurer, Assistant Secretary

Subsidiaries
CANADIAN PROPANE CONSOLIDATED LIMITED
Gerald M. Miller, Vice-President and General Manager
CANADIAN NATURAL GAS LIQUIDS LIMITED
William H. Sloan, Vice-President and General Manager

CANADIAN HYDROCARBONS LIMITED

Canadian Propane Consolidated Limited
67 Retail branches
34 Storage points
14 Consignee-operated plants
95 Bulk propane delivery trucks
108 Service trucks
22 Highway transports
309 Employees

Canadian Natural Gas Liquids Limited
Acheson gas plant
Alberta Underground Storage Limited (40% owned)
Hydrocarbons Pipeline Limited
Hydrocarbons Pipeline (Alberta) Ltd.

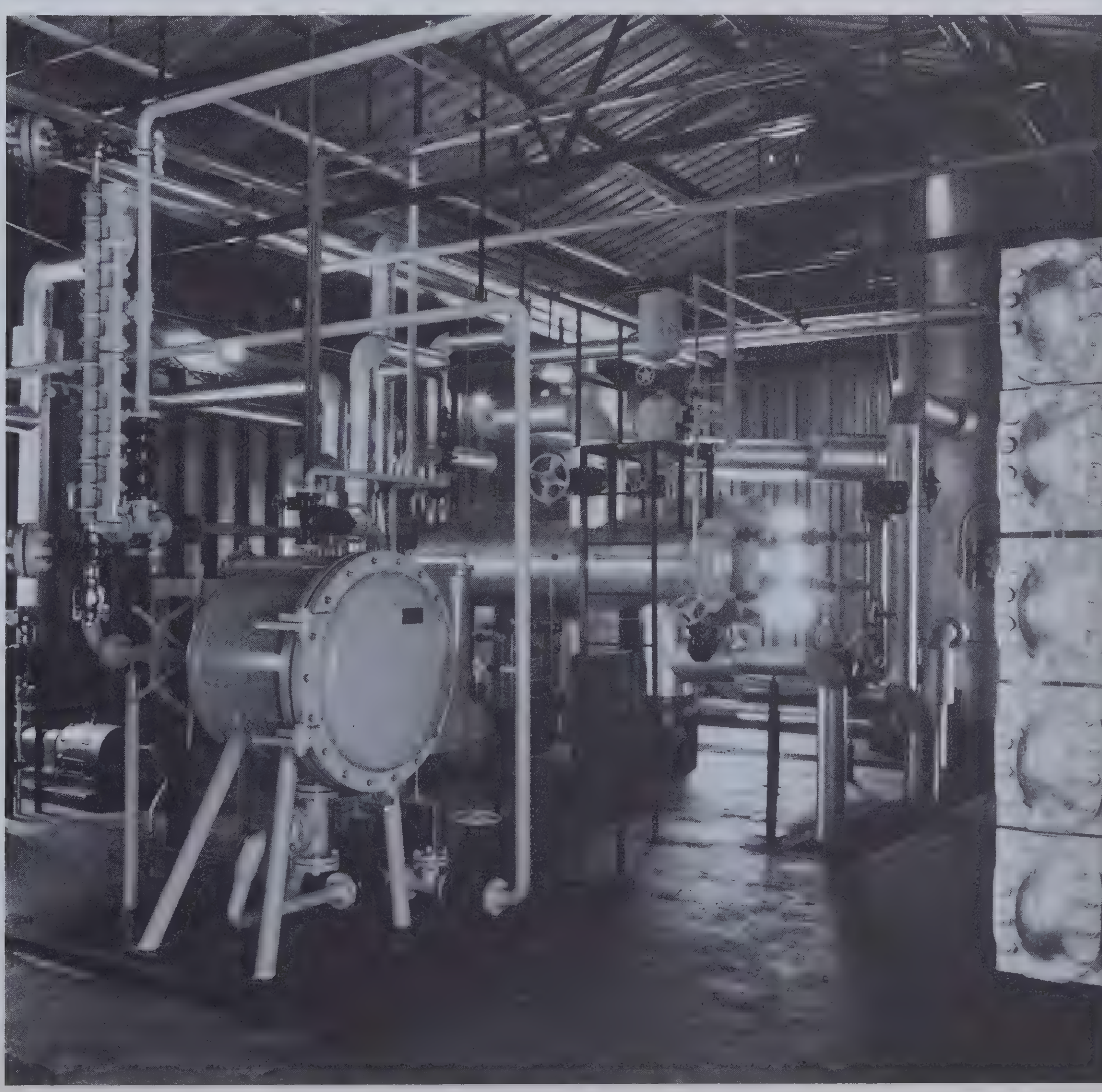
Head Office: 250 Elveden House, Calgary, Alberta
Transfer Agents and Registrars: Montreal Trust Company
U.S. Transfer Agents: Morgan Guaranty Trust Company of New York
U.S. Registrar: Manufacturers Hanover Trust Company
Trustee and Registrar for Debentures: The Royal Trust Company
Bankers: Bank of Montreal
Auditors: Clarkson, Gordon & Co.
Solicitors: Allen, MacKimmie, Matthews, Wood, Phillips & Smith

CAPITAL INVESTMENT

The improvement and expansion of existing facilities so as to handle market growth efficiently, and keep operating costs competitive, call for a continuing capital program. The 1963 fiscal year's capital outlay approached three and one half million dollars, and included expenditures for additional storage tanks for customers, a second round of expansion at the Acheson gas-processing plant near Edmonton, and further modernization of the transportation fleet.

Canadian Hydrocarbons moves its product over great distances. Transportation is the largest single item of operating expense, and a continuing subject of cost-reducing studies. The planned conversion of the fleet of transports and bulk delivery units to light weight, modern T-1 steel tanks continues to make excellent progress.

The company's 50% interest in Blackfoot Hills Pipeline Limited has been sold to Canadian Husky Oil Limited.



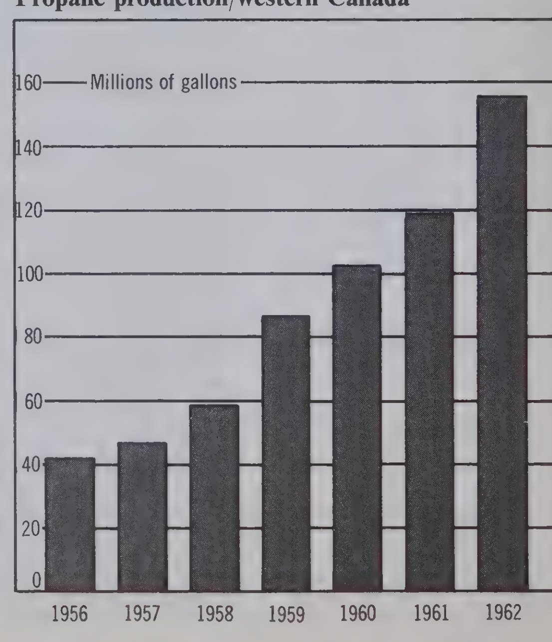
Part of the compressor equipment at Acheson Plant, Edmonton, Alberta.

PRODUCTS SUPPLY

Liquefied petroleum-gas (propane and butane) is a byproduct of the oil and gas industry, and its market expansion reflects the development of petroleum and natural-gas fields, and their servicing by gathering and distributing pipelines. The promotion of additional propane markets in Saskatchewan and Manitoba will be aided by a new pipeline from Empress, Alta. to Winnipeg, Man., which is under construction. In addition substantial other new sources of supply are expected to come on stream during the next eighteen months.

In addition to transportation, low cost storage of propane is an important factor. Canadian Hydrocarbons has a 40% interest in Alberta Underground Storage with a 20 million gallon storage reservoir at Hughenden, Alta., from which withdrawals reached capacity rates despite mild weather during the past winter. Near-capacity operation of the underground storage facilities throughout an entire consuming season is expected next winter for the first time.

Propane production/western Canada



Top: Long distance supply lines are maintained by T-1 steel tank trucks powered too, by propane.

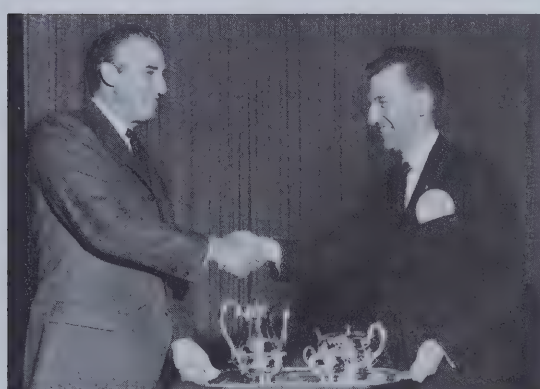
Bottom: Opening main valve to allow liquid propane to flow from tank car into storage.

SALES AND DISTRIBUTION

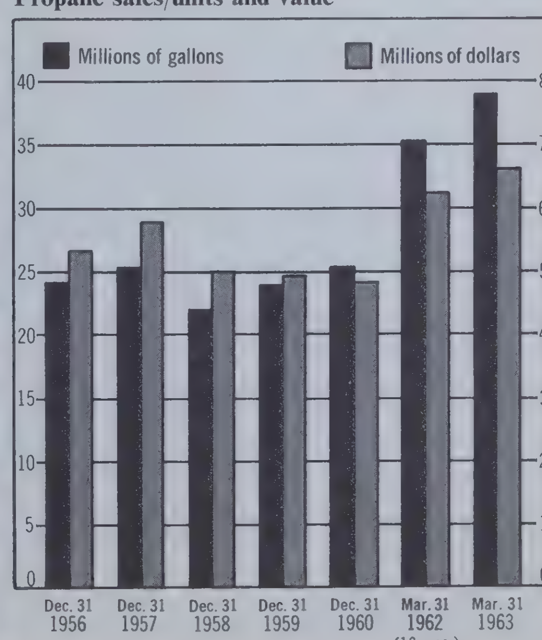
Propane sales of Canadian Hydrocarbons dropped in 1958 due to inroads of natural gas, but volume has since climbed steadily as a result of a vigorous market development program.

Natural gas installations in the smaller towns and villages will continue to be the primary factor governing loss of propane customers. This loss is, however, being more than offset by sales to new customers. For example, 2,200 bulk tanks were returned in the 1963 fiscal year but this was offset by 5,383 new bulk customer installations.

In 1961 and 1962 propane sales increased by an average of 19% and merchandise sales 11%. New consumer bulk-tank placements are the most significant factor in measuring the rate of growth, and are being accelerated by a "Metergas" program. Meters enable the Company to supply more than one customer from a single storage tank and to make deliveries more efficiently. They are appreciated by customers because the propane does not have to be paid for until it is used.



Canadian Hydrocarbons Limited
Propane sales/units and value



Top left: Bob Lewison, Manager of Morden, Manitoba branch receives a silver service from Mr. R. A. Rich for outstanding propane sales achievement.

Top right: Experienced service men check and maintain customers' equipment

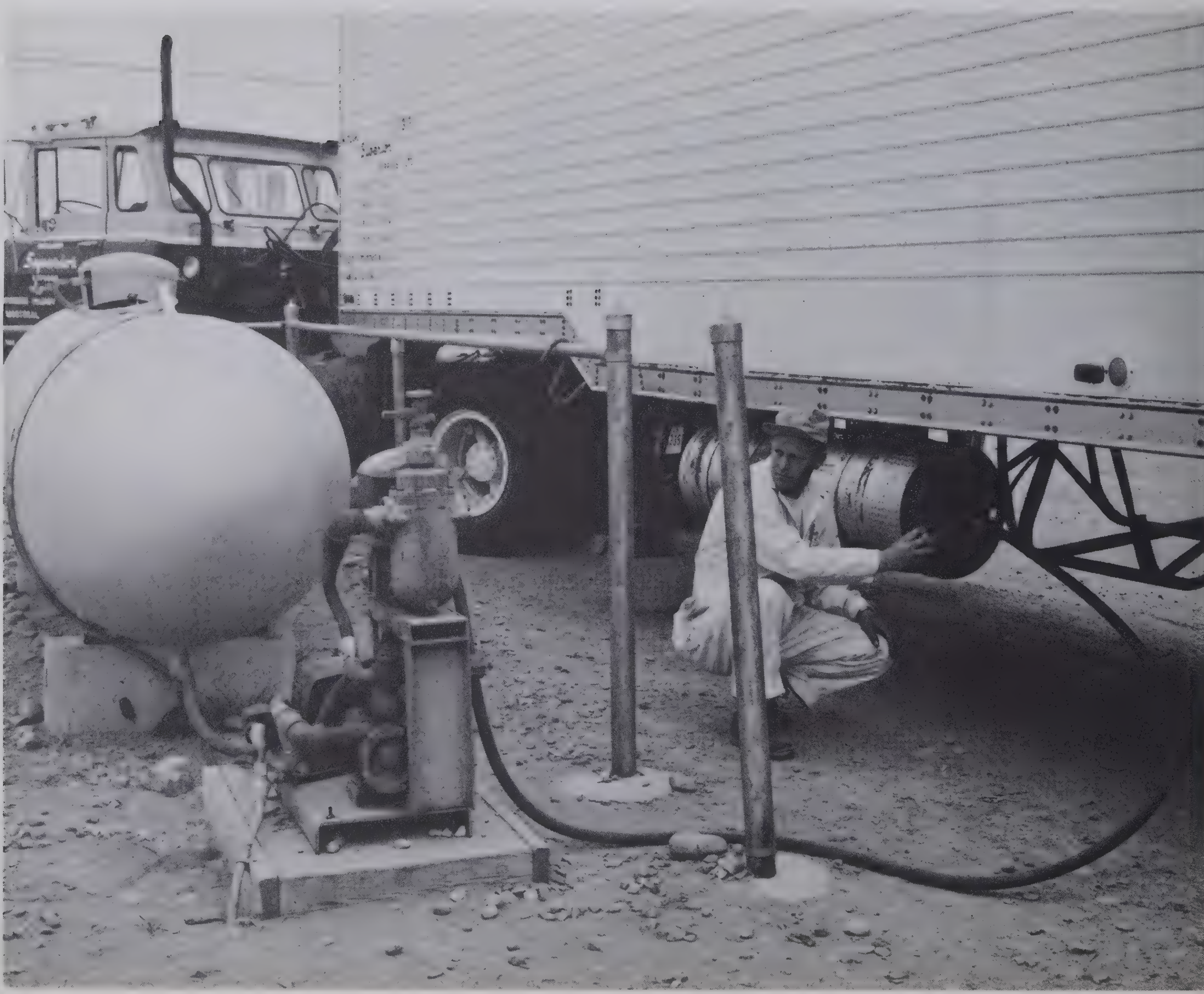
Bottom: In Calgary and many other cities, the latest propane-operated appliances are demonstrated and sold.

THE MARKET FOR PROPANE

Market development by Canadian Hydrocarbons aims not only to obtain new users but to increase sales to established customers. The adoption of propane in the home for space heating, which is the principal market in the northern climate, naturally leads to its use for water heating, refrigeration, cooking and clothes drying. On the farm it finds added applications: as fuel for heating brooder houses, drying grain and destroying weeds; and as energy in the carburetion of stationary and tractor engines. It also powers pumps that irrigate the land.

Sales-promotion activities are primarily based on the sale of propane-burning equipment and appliances, of which the company is the largest merchandiser in Canada. Merchandise sales are a material source of revenue, and have increased by an average of 11% since 1960.

Propane now provides energy for heat in winter and refrigeration in summer to 76 transports of Midland Superior Express.



1. Propane on the farm is both an economical and highly satisfactory fuel for tractors, trucks, etc.

2. Tank is being installed in a new house south of Calgary to supply fuel for cooking, hot water, refrigeration and heat.

3. Propane burns at a low vaporizing point, an important factor in cold winters. It's a clean, steady and safe fuel for heating homes and institutions.

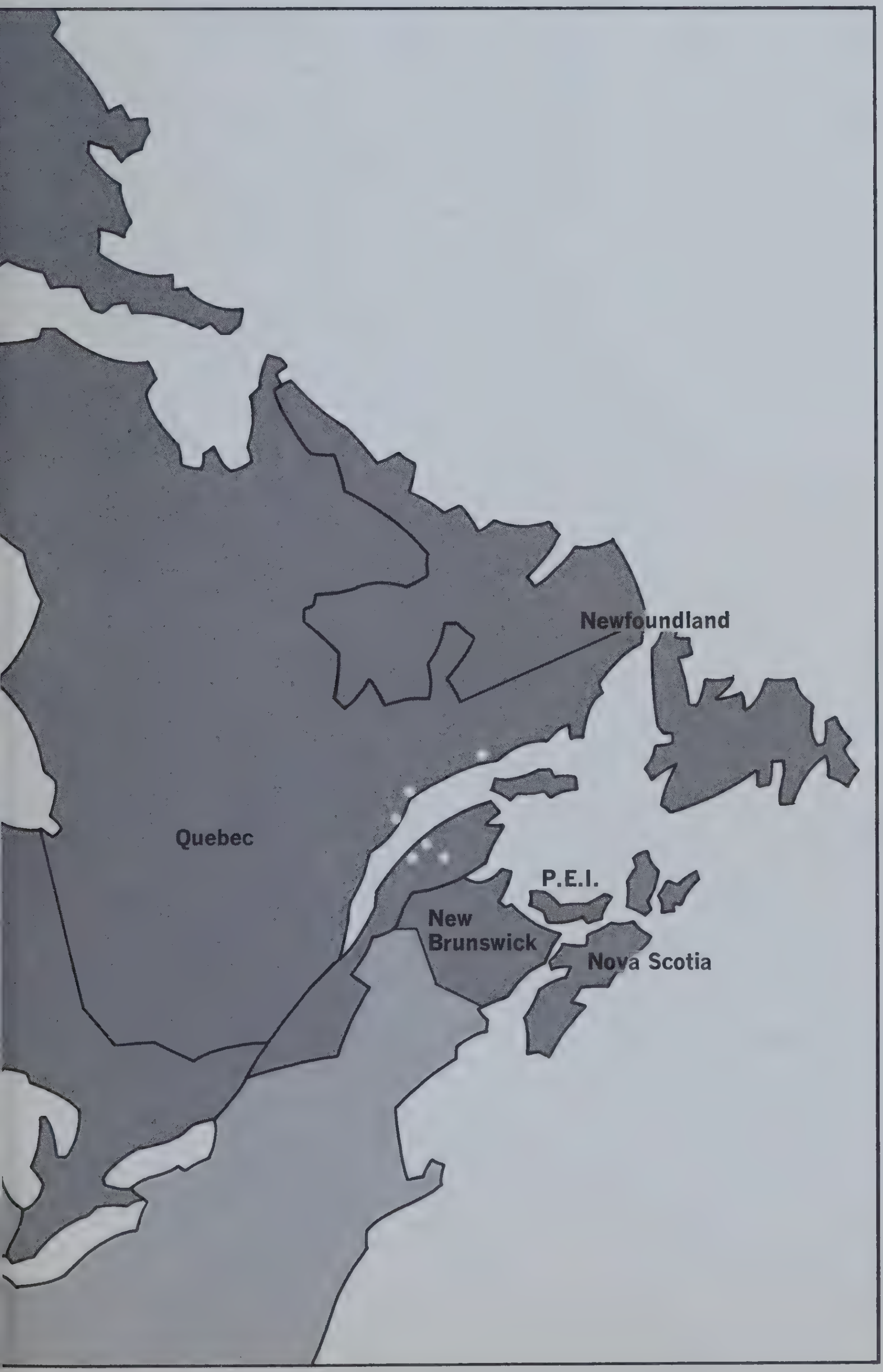
4. Propane-powered pumps drive water from irrigation canals into extensive sprinkler systems.

THE MARKETING PICTURE: GROWTH

Cleanliness, convenience, high thermal value. These are attributes of liquefied petroleum-gas (L.P.G.), which finds its markets primarily in areas not reached by natural gas pipelines.

Canadian Hydrocarbons provides propane to users and dealers over a territory extending from Gaspe in Quebec to British Columbia, the Yukon and the U.S. Pacific Northwest. General business conditions in the area served have been excellent, reflecting a base of resource industries and agriculture, with which the national economic growth is identified.

Hand in hand with market development, the company has achieved increasing integration. It owns propane production, processing and storage facilities, and moves the product in its own transport system. Canadian Hydrocarbons is working to raise the average consumption of under 20 gallons per capita in Western Canada closer to the average of over 60 gallons per capita in the North Central U.S.



Operating Locations

Yukon
Whitehorse
Watson Lake

British Columbia
Burns Lake
Castlegar
Cranbrook
Creston
Dawson Creek, 10117-17th Street
Fort St. John
Fort Nelson
Golden
Grand Forks
Prince George, 1443 Third Avenue
Quesnel
Vanderhoof
Valemount

Alberta
Bonnyville
Bow Island
Brooks
Calgary, 73rd Avenue & Macleod Trail
Camrose
Cardston
Castor
Crossfield
Drayton Valley
Drumheller
Edmonton, 14616-111th Avenue
Edson
Grande Prairie, 10808-100th Street
High Prairie
High River
Jasper
Lethbridge, 3321 First Avenue South
Lloydminster, 44th Street & 55th Avenue
Medicine Hat
Milk River
Peace River
Ponoka
Red Deer
Stettler
Three Hills
Two Hills
Valleyview
Waterways
Wainwright

Saskatchewan
Assiniboia
Climax
Estevan
Kindersley
Lac la Ronge
Maple Creek
Meadow Lake
Melfort
Moose Jaw
North Battleford
Prince Albert
Regina, 550 Winnipeg Street
Rosetown
Saskatoon
Swift Current
Waskesiu
Yorkton

Manitoba
Brandon, 930-18th Street
Cranberry Portage
Dauphin
Morden
St. Boniface, 463 Dawson Road
The Pas
Souris

Ontario
Fort William, 230 S. Waterloo Street
Kapuskasing
Vermilion Bay
Fort Frances

Quebec
Amqui
Baie Comeau
Hauterive
Mont-Joli
Rimouski
Sept Iles

U.S.A.
Washington
Longview
Vancouver

Oregon
Springfield

AR32

file

Canadian Hydrocarbons Limited

report to
the shareholders
for the year
ended
March 31, 1964

Canadian Hydrocarbons Limited

and its Subsidiaries

Directors

Gordon H. Allen, Q.C.
Richard A. Bethell
Alan T. Christie
Donald M. Deacon
J. Howard Kelly, Q.C.
Dr. Courtnay Pitt
Raymond A. Rich
George C. Solomon
David R. Williams, Jr.

Officers

Raymond A. Rich
Chairman of the Board

Donald M. Deacon
President

Donald C. Ferns, C.A.
Vice-President and Treasurer

Frederick T. Phillips
Secretary

Dennis A. Anderson, C.A.
Assistant Treasurer, Assistant Secretary

HEAD OFFICE:
250 Elveden House, Calgary, Alberta

TRANSFER AGENTS AND REGISTRAR:
Montreal Trust Company

U.S. TRANSFER AGENTS:
Morgan Guaranty Trust Company of New York

U.S. REGISTRAR:
Manufacturers Hanover Trust Company

TRUSTEE AND REGISTRAR FOR DEBENTURES:
The Royal Trust Company

BANKERS:
Bank of Montreal

AUDITORS:
Clarkson, Gordon & Co.

SOLICITORS:
Allen, MacKimmie, Matthews, Wood, Phillips & Smith

Canadian Propane Consolidated Limited

Gerald M. Miller
Vice-President and General Manager

65 Retail branches
33 Storage points
18 Consignee-operated plants
107 Bulk propane delivery trucks
118 Service trucks
24 Highway transports
313 Employees

Canadian Natural Gas Liquids Limited

William H. Sloan
Vice-President and General Manager

Acheson gas plant
Alberta Underground Storage Limited (40% owned)
Hydrocarbons Pipeline Limited
Hydrocarbons Pipeline (Alberta) Ltd.

The Annual General Meeting of the Company is to be held at the Head Office Thursday July 9th, 1964, at 11.30 A.M.

Highlights

Financial

	1964	1963	Percentage Increase (Decrease)
Gross Revenue	$12,823,749	$10,919,962	17.4%
Net Profit	$ 1,415,425	$ 1,133,857	24.8%
Working Capital	$ 3,339,277	$ 3,068,024	8.8%
Working Capital Ratio	3.0:1	2.9:1	
Depreciation	$ 1,096,236	$ 908,393	20.7%
Long Term Debt	$ 5,475,187	$ 5,737,048	(4.6%)
Shares outstanding	783,340	762,065	2.8%
Profit per Share	$ 1.80	$ 1.48	21.6%
Equity per Share	$ 13.54	$ 12.17	11.1%

Operating

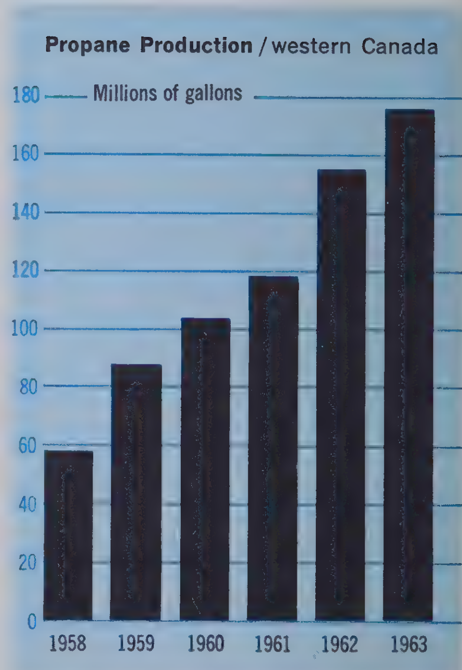
	1964	1963	Percentage Increase (Decrease)
Gallonage L.P.G.	48,865,001	39,210,201	24.6%
Total Western Canada Production	176,200,000	157,000,000	12.2%
No. of new bulk tank installations (net)	3,383	3,183	6.1%

Copies of this report in French are available from the Head Office.

President's Review

For the third year in succession Canadian Hydrocarbons Limited established new records in gross revenues which rose 17.4% to $12.8 millions and net profits which rose 24.8% to $1,415,000. These earnings are equivalent to $1.80 per share.

Despite the fact that temperatures in Western Canada were well above normal during the 12 month period under review, the quantity of propane distributed increased 24.6% to 48,900,000 gallons.



Financial Position and Capital Expenditures

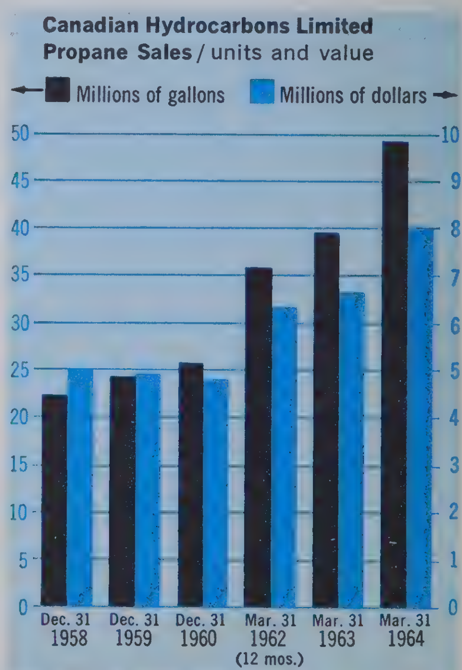
As a result of the year's operations, working capital was increased by $271,253 and long term debt reduced by $288,000. In addition, approximately $1,000,000 was expended on new customer installations and $900,000 on improvements and additions to the distribution facilities including the transportation fleet.

As reported last year, the Company and its subsidiaries are continuing a policy of claiming capital cost allowance in excess of depreciation recorded in the accounts. It is estimated that capital cost allowances claimed for depreciation will exceed depreciation recorded in the accounts for a number of years. A review of past operating results indicates that the rates of depreciation recorded in the accounts have amply provided for actual depreciation and obsolescence experienced to date.

Product Supply

Extensive new sources of propane have become available during the past year. The most notable of these is the new plant at Empress, Alberta with its products pipeline extending as far as Winnipeg. This and other plant developments at strategic locations in the Company's marketing area have materially improved the supply picture, and reduced transportation costs.

The Company's gas processing plant serving the Acheson field near Edmonton is now operating at a high level of efficiency and profitability. Alberta Underground Storage Limited (40% owned) was used to a greater extent than in any previous year and contributed to a more efficient distribution of product to meet the demands of customers.



Sales and Distribution

Canadian Hydrocarbons maintained its leadership in the development of new markets with continued expansion of retail and wholesale sales outlets. In support of this expanded program, TV and radio advertising, colour newspaper and magazine advertisements and systematic house to house selling campaigns were extensively used. New uses and markets were developed for propane, which not only offset losses to

1

1
This oil drilling rig, powered by propane, uses about 2,200 gallons per day to drill a shaft which will eventually reach a depth of 14,000 feet.

2
In this plant coal is being carbonized by the use of propane heat into char (a product similar to charcoal). The char is now being used in Kimberley Smelters, and further developments in its uses are expected.

3
A transport and trailer unit with a capacity of 10,200 gallons and a retail bulk delivery truck are shown ready to leave the Lethbridge yards.

2

3

1 and 2
Many new 3,500 gallon capacity T-1 bulk delivery units like these in Lethbridge, above, and Red Deer, below, have been added during the year to meet the demands of expanding markets.

3
These two 4,000 gallon storage tanks are typical of the latest installations for large users of propane.

4
Propane burners with a heat capacity of 9 million BTU's have replaced coal as fuel for boilers in heating the airport hangars at Vulcan, Alberta.

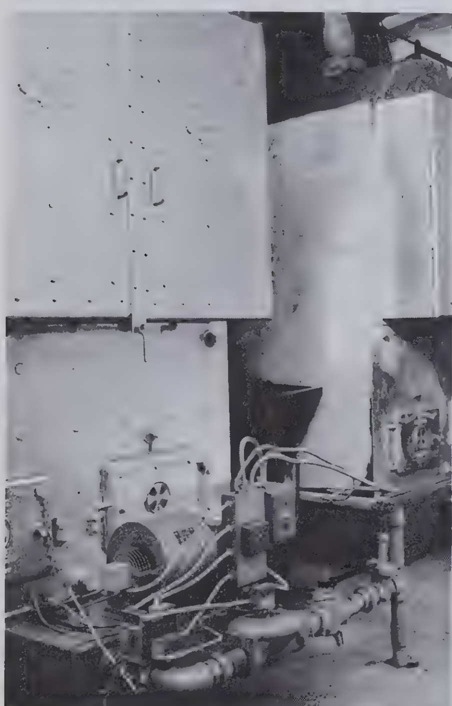
5
Propane-powered pumps for irrigation systems are steadily increasing. Here a gasoline engine has been converted to propane.

6
In extreme cold weather these propane-fired infra-red units make working conditions comfortable in this equipment depot in the Gaspe Peninsula.

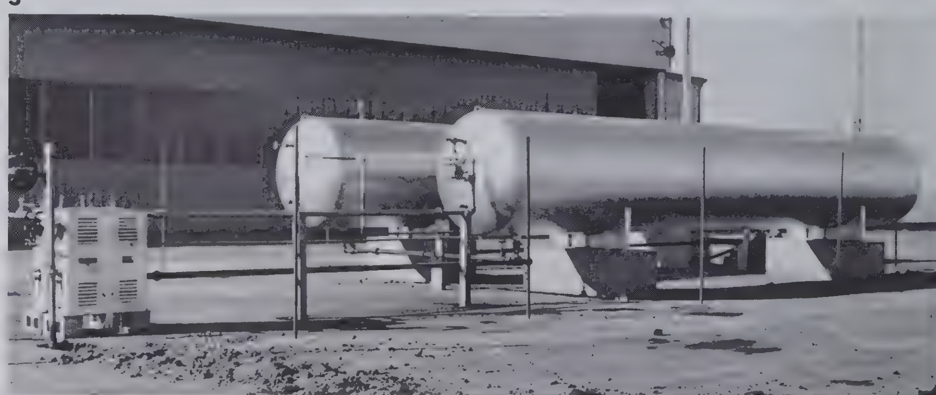
1

2

4



3



5

6

natural gas, but resulted in the 24.6% increase in gallonage. The net increase in bulk tank installation was 3,383 and the "Metergas" tank program again accounted for well over 50% of the new installations. Many thousands of the Company's customers are now enjoying the benefits of this type of service which, combined with the improved delivery techniques, has resulted in greater efficiency.

While the large proportion of the Company's sales are in Western Canada, it is a pleasure to report the growth and development of the operations in Quebec under the name of Gaz Propane Pino and the Northwestern U.S. under the name of Country Gas, where the enthusiasm of personnel augurs well for the future.

The Market for Propane

The gradual reduction in product and transportation costs is making it possible for Canadian Hydrocarbons to continually develop new uses for propane. Included among the important new loads developed during the past year were several hundred stationary irrigation pump engines, a large coal carbonizer unit, gravel drying and aggregate mixing plants, many large foundry-mould heating torch units and some large infra-red heating systems for commercial and industrial buildings. Management is continually on the alert for new uses for versatile L.P.G., the fastest growing source of energy fuel in Canada today.

General

The senior management group, the branch managers and the sales and service personnel of Canadian Hydrocarbons are young in years but include many of the pioneers of Canada's still youthful L.P.G. industry. The Directors appreciate their loyal cooperation, sound planning and hard work which resulted in record sales and earnings in the past year.

Economic conditions in Western Canada are very favourable and production of propane is expected to increase from 176.2 million gallons in 1963 to 347.6 million gallons in 1964. Because of these factors Canadian Hydrocarbons looks forward to further growth this year.

Submitted on behalf of the Board of Directors,
Canadian Hydrocarbons Limited

Chairman of the Board — *President*

Consolidated Balance Sheet

Canadian Hydrocarbons Limited
(Incorporated under the laws of Canada)
and its Subsidiaries, March 31, 1964 and 1963

Assets	1964	1963
CURRENT:		
Cash	$ 1,054,957	$ 579,547
Short term deposit	—	500,000
Accounts receivable	2,478,165	2,206,158
Inventories at the lower of cost or market	1,398,382	1,342,992
Prepaid expenses	79,966	96,786
	$ 5,011,470	$ 4,725,483
INVESTMENT IN AFFILIATE:		
Shares at cost ($12,000) and advances	$ 189,180	$ 189,180
FIXED—AT COST:		
Customers' installations	$ 8,042,648	$ 7,015,564
Buildings and equipment	5,466,249	5,222,349
Automotive equipment	2,283,454	2,101,653
Land	362,780	281,327
	$16,155,131	$14,620,893
Less accumulated depreciation	5,638,046	4,839,934
	$10,517,085	$ 9,780,959
OTHER:		
Deferred charges less amounts written off	$ 83,498	$ 103,955
Financing expenses less amounts written off	207,461	229,041
Excess of cost of shares of subsidiaries over net book value at dates of purchase	2,324,339	2,324,339
	$ 2,615,298	$ 2,657,335
	$18,333,033	$17,352,957

On behalf of the Board:

R. A. Rich, Director.

D. M. Deacon, Director.

Liabilities	1964	1963
CURRENT:		
Accounts payable	$ 1,463,768	$ 1,317,901
Dividend payable	—	76,194
Current maturities of long term debt (Note 2) .	208,425	263,364
	$ 1,672,193	$ 1,657,459
LONG TERM DEBT (Note 2).	$ 5,475,187	$ 5,737,048
DEFERRED INCOME.	$ 578,845	$ 683,965
SHAREHOLDERS' EQUITY:		
Capital (Note 3)		
Authorized—3,500,000 shares of no par value		
Issued — 783,340 shares (1963—762,065 shares)	$ 5,719,624	$ 5,567,885
Retained earnings (Note 4)	4,887,184	3,706,600
	$10,606,808	$ 9,274,485
CONTINGENT LIABILITY (Note 6)		
	$18,333,033	$17,352,957

(See accompanying notes)

Auditors' Report

To the Shareholders of
Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and its subsidiaries at March 31, 1964 and the consolidated statements of earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Canadian Hydrocarbons Limited and its subsidiaries at March 31, 1964 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
May 21, 1964.

Clarkson, Gordon & Co.,
Chartered Accountants.

Consolidated Statements of Earnings

Canadian Hydrocarbons Limited
and its Subsidiaries
For the years ended March 31, 1964 and 1963

Earnings	1964	1963
REVENUE:		
Sales	$12,233,641	$10,411,891
Installation rentals earned	590,108	508,071
	$12,823,749	$10,919,962
EXPENSES:		
Cost of gas and merchandise sold	$ 6,285,073	$ 5,319,141
Operating, selling and administrative expenses (Note 5)	3,752,637	3,400,956
Interest and expense on long term debt	382,350	281,276
Depreciation	1,096,236	908,393
	$11,516,296	$ 9,909,766
Earnings from operations	$ 1,307,453	$ 1,010,196
Profit on sales of fixed assets and investments	107,972	81,998
Earnings before income taxes (Note 1)	$ 1,415,425	$ 1,092,194
Reduction of prior year's income taxes	—	41,663
Net earnings for the year	$ 1,415,425	$ 1,133,857

Retained earnings	1964	1963
Balance at beginning of year	$ 3,706,600	$ 2,725,118
Add net earnings for the year	1,415,425	1,133,857
	$ 5,122,025	$ 3,858,975
Less dividends paid	234,841	152,375
Balance at end of year	$ 4,887,184	$ 3,706,600

(See accompanying notes)

Notes to Financial Statements

Canadian Hydrocarbons Limited
and its Subsidiaries
March 31, 1964

1. Income taxes

For income tax purposes the companies intend to claim capital cost allowances of $563,000 in excess of depreciation recorded in the accounts during the year ended March 31, 1964. This amount, together with accumulated excess capital cost allowances carried forward from prior years, eliminates income taxes otherwise payable for the year of $650,000.

The net book value of depreciable fixed assets at March 31, 1964 is $3,632,000 in excess of the amount upon which depreciation will be allowed for income tax purposes in the future.

2. Long term debt

	1964	1963
6½% Sinking Fund Debentures, Series A due August 15, 1981, subject to annual sinking fund payments	$3,360,000	$3,430,000
6¼% Sinking Fund Debentures, Series B due December 15, 1982, subject to annual sinking fund payments	1,960,000	2,000,000
5% to 7% notes and mortgages of Canadian Propane Consolidated Limited maturing on various dates to 1975	363,612	419,074
Finance contracts payable by Canadian Propane Consolidated Limited	—	151,338
	$5,683,612	$6,000,412
Less instalments due within one year included in current liabilities	208,425	263,364
	$5,475,187	$5,737,048

Financing expenses are being amortized over the terms of the issues.

3. Capital

During the year ended March 31, 1964, the Company issued 21,275 shares of its capital stock for a cash consideration of $151,739 upon exercise of stock options.

22,475 shares of the Company's capital were reserved at March 31, 1964 as follows:

13,000 shares for options granted to officers to purchase shares at prices ranging from $6.4125 to $9.78 per share and exercisable on various dates to February 9, 1968.

9,475 shares under an Employee Stock Option Plan. Options have been granted to employees under the Plan to purchase 4,675 shares at prices ranging from $7.52 to $16.03 per share, exercisable on various dates to April 25, 1970.

4. Dividends

The Trust Deed securing the 6½% Sinking Fund Debentures, Series A and 6¼% Sinking Fund Debentures, Series B restricts the declaration and payment of cash dividends which would reduce consolidated retained earnings (consolidated earned surplus as defined by the Trust Deed) below $2,000,000 or would reduce consolidated net current assets below $1,500,000.

5. Earnings

Included in operating, selling and administrative expenses for the year ended March 31, 1964 are the following:

Remuneration of executive officers	$96,000
Directors' fees	21,000
Legal fees	22,917

6. Contingent liability

Customers' finance contracts under discount or guaranteed amount to approximately $170,000.

Consolidated Statement of Source and Application of Funds

Canadian Hydrocarbons Limited
and its Subsidiaries
For the year ended March 31, 1964

Funds were provided from		
Operations		
Net earnings for the year		$1,415,425
Add items not involving cash		
Depreciation	$1,096,236	
Deferred installation rentals earned	(104,483)	
Amortization of financing expenses and deferred charges	23,397	
Other	(65,819)	949,331
		$2,364,756
Fixed assets sold		154,148
Shares issued		151,739
Additional long term debt		26,400
Other		17,480
		$2,714,523
Funds were applied to		
Fixed assets purchased		$1,911,292
Long term debt instalments		
Debentures	$ 110,000	
Other	178,262	288,262
Dividends		234,841
Other		8,875
		$2,443,270
Increase in working capital		$ 271,253

Years in Review

Canadian Hydrocarbons Limited
and its Subsidiaries

Summary of consolidated statements of earnings for the twelve months ended on the dates shown

	March 31 1964	March 31 1963	March 31 1962	December 31 1960	December 31 1959
REVENUE:					
Sales	$12,233,641	$10,411,891	$ 9,472,402	$ 7,330,066	$ 7,110,643
Installation rentals earned	590,108	508,071	437,856	351,082	386,415
	$12,823,749	$10,919,962	$ 9,910,258	$ 7,681,148	$ 7,497,058
EXPENSES:					
Cost of gas and merchandise sold	$ 6,285,073	$ 5,319,141	$ 4,902,726	$ 3,679,832	$ 3,390,909
Operating, selling and administrative expenses	3,752,637	3,400,956	3,192,793	2,587,115	2,436,125
Interest and expense on long term debt	382,350	281,276	181,045	130,659	145,684
Depreciation	1,096,236	908,393	729,294	604,900	595,099
	$11,516,296	$ 9,909,766	$ 9,005,858	$ 7,002,506	$ 6,567,817
EARNINGS:					
Earnings from operations	$ 1,307,453	$ 1,010,196	$ 904,400	$ 678,642	$ 929,241
Profits on sales of fixed assets and investments	107,972	81,998	35,446	85,066	37,230
Earnings before income taxes	$ 1,415,425	$ 1,092,194	$ 939,846	$ 763,708	$ 966,471
Provision for income taxes	—	(41,663)	56,987	91,311	190,008
	$ 1,415,425	$ 1,133,857	$ 882,859	$ 672,397	$ 776,463
Minority interest in earnings	—	—	11,041	40,366	85,074
Net earnings	$ 1,415,425	$ 1,133,857	$ 871,818	$ 632,031	$ 691,389

Financial and other information

	March 31 1964	March 31 1963	March 31 1962	December 31 1960	December 31 1959
Working capital	$ 3,339,277	$ 3,068,024	$ 2,158,109	$ 1,425,080	$ 2,012,558
Working capital ratio	3.0 to 1	2.9 to 1	2.2 to 1	2.3 to 1	2.9 to 1
Long term debt	$ 5,475,187	$ 5,737,048	$ 3,609,900	$ 2,009,500	$ 2,292,000
Minority interest	$ Nil	$ Nil	$ Nil	$ 290,461	$ 715,172
Shareholders' equity	$10,606,808	$ 9,274,485	$ 8,199,401	$ 6,866,370	$ 6,414,339
Number of shares outstanding	783,340	762,065	754,096	700,000	700,000
Shareholders' equity per share	$ 13.54	$ 12.17	$ 10.87	$ 9.81	$ 9.16
Net profit per share	$ 1.80	$ 1.48	$ 1.16	$ .90	$ .99
Cash flow (net profits + non cash expense — non cash income)	$ 2,364,756	$ 1,875,572	$ 1,577,165	$ 951,638	$ 1,092,269
Purchase of fixed assets (net)	$ 1,757,144	$ 2,943,078	$ 2,299,409	$ 612,556	$ 407,342
Cash flow per share	$ 3.02	$ 2.46	$ 2.09	$ 1.36	$ 1.56
Interest coverage before depreciation	7.6	8.3	10.2	11.5	11.7
Interest coverage after depreciation	4.7	5.0	6.2	6.8	7.6
Percentage of cash flow to shareholders' equity	22.3%	20.2%	19.2%	13.8%	17.0%
Fixed assets including excess cost of shares of subsidiaries	$12,841,424	$12,105,298	$10,043,574	$ 8,233,088	$ 8,283,128
Propane sales	$ 8,044,833	$ 6,674,612	$ 6,157,192	$ 4,836,400	$ 4,969,771
Merchandise sales	$ 3,230,125	$ 2,982,902	$ 2,670,567	$ 2,314,721	$ 1,971,542
Propane gallonage sales	48,865,001	39,210,201	35,424,893	25,438,897	23,850,000

A sales and distribution system growing through service

The Company's merchandise marketing and propane distribution system is growing to meet ever expanding consumer requirements.

Propane is one of the most versatile and flexible forms of energy available. New sources of supply, coupled with technological advances, have made it possible for the Company to develop a wide variety of large volume loads.

In conjunction with a continuing substantial investment in new transportation facilities, additional merchandise and distribution centres were developed in the past year and this program will be continued.

The merchandise and gas distribution centres shown on the map supply a complete customer service and are the "Hubs" of our large modern transportation system which is virtually a "Gas Main on Wheels."

The excellent propane supply situation and an efficient distribution system has enabled Canadian Hydrocarbons to maintain its position as Canada's largest marketer of propane and propane burning equipment.

Retail branches

Yukon

Watson Lake
Whitehorse

British Columbia

Burns Lake
Castlegar
Cranbrook
Creston
Dawson Creek
Fort Nelson
Golden
Prince George
Quesnel

Alberta

Bow Island
Brooks
Calgary
Camrose
Cardston
Castor
Drayton Valley
Drumheller
Edmonton
Edson
Fort Macleod
Grande Prairie
High Prairie
High River
Lethbridge
Lloydminster
Medicine Hat
Oyen
Peace River
Ponoka
Red Deer
Stettler
Valleyview
Waterways

Saskatchewan

Assiniboia
Estevan
Kindersley
Maple Creek
Meadow Lake
Melfort
Moose Jaw
North Battleford
Prince Albert
Regina
Rosetown
Saskatoon
Swift Current
Waskesiu
Yorkton

Manitoba

Brandon
Dauphin
Morden
St. Boniface
Swan River

Ontario

Fort William
Vermilion Bay
Fort Frances

Quebec

Hauterive
Mont-Joli
Rimouski
Sept-Iles

United States

Longview, Washington
Vancouver, Washington
Springfield, Oregon

file

CANADIAN HYDROCARBONS LIMITED

REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED MARCH 31, 1966

Corp Report

CANADIAN HYDROCARBONS LIMITED

Directors

*Gordon H. Allen, Q.C., Calgary, Alberta
Richard A. Bethell, Montreal, Quebec
Donald M. Deacon, Unionville, Ontario
J. Howard Kelly, Q.C., Calgary, Alberta
Dr. Courtnay Pitt, Jenkintown, Pennsylvania
Raymond A. Rich, Philadelphia, Pennsylvania
George C. Solomon, Regina, Saskatchewan
J. Grant Spratt, Calgary, Alberta
David R. Williams, Jr., Chagrin Falls, Ohio

**Retired May 12, 1966*

Officers

Raymond A. Rich, Chairman of the Board
Donald M. Deacon, President
Gerald M. Miller, Vice-President and General Manager
Donald C. Ferns, C.A., Vice-President
Dennis A. Anderson, C.A., Vice-President and Treasurer
Frederick T. Phillips, Secretary

HEAD OFFICE:
250 Elveden House, Calgary, Alberta

TRANSFER AGENTS AND REGISTRAR:
Montreal Trust Company

U.S. TRANSFER AGENTS:
Morgan Guaranty Trust Company of New York

U.S. REGISTRAR:
Manufacturers Hanover Trust Company

TRUSTEE AND REGISTRAR FOR DEBENTURES:
The Royal Trust Company

BANKERS:
Bank of Montreal

AUDITORS:
Clarkson, Gordon & Co.

SOLICITORS:
MacKimmie, Matthews, Wood, Phillips & Smith

PRINCIPAL SUBSIDIARIES:
Canadian Propane Consolidated Limited
CHL Oil & Gas Limited
Canadian Natural Gas Liquids Limited

The Annual General Meeting of the Company is to be held at the Head Office, Thursday, July 14, 1966, at 9.30 A.M.

Ce rapport annuel peut-être obtenu en français, du siège social.

HIGHLIGHTS

	1966	1965	% Increase (or Decrease)
Gross Revenue	$15,686,058	$14,261,110	10.0%
Gallonage L.P.G.	68,608,341	57,570,149	19.2%
Net Earnings	$ 2,053,180	$ 1,802,336	11.4%
Working Capital	$ 3,455,066	$ 6,333,904	(45.5%)
Working Capital Ratio	2.1:1	4.4:1	
Depreciation and Depletion	$ 1,514,291	$ 1,248,890	21.3%
Long Term Debt	$ 6,203,339	$ 6,490,912	(4.4%)
Preferred Shares Outstanding	171,745	175,000	(1.9%)
Dividends Paid on Preferred Shares	$ 191,021	$ 80,957*	
Common Shares Outstanding	797,865	795,565	.3%
Cash Flow per Common Share	$ 4.40	$ 3.75	17.3%
Earnings per Common Share	$ 2.33	$ 2.16	7.9%
Dividends Paid on Common Shares	$ 398,451	$ 317,936	25.3%
Equity per Common Share	$ 16.78	$ 14.96	12.1%

*For the five months ended March 31, 1965.

Specially designed 18,000 gallon mobile storage tanks are delivered to industrial consumers at remote locations.

REVIEW OF THE YEAR

Gross revenues of Canadian Hydrocarbons Limited for the year ended March 31, 1966 climbed 10% to a new high of $15,686,058. Net earnings at $2,053,180 improved 11.4% over the previous year and were equivalent to $2.33 per common share compared with $2.16 in 1965. Total cash flow exceeded $3,500,000, being $4.40 per share.

These results were achieved in the face of strong competitive conditions with their consequent impact on prices. In addition, the Company carried out during the period a major program of capital expansion, increasing the number of retail outlets by approximately 25%. These will be fully effective this year. Expenditures on fixed assets during the year totalled $5,011,473, the largest in the history of the Company.

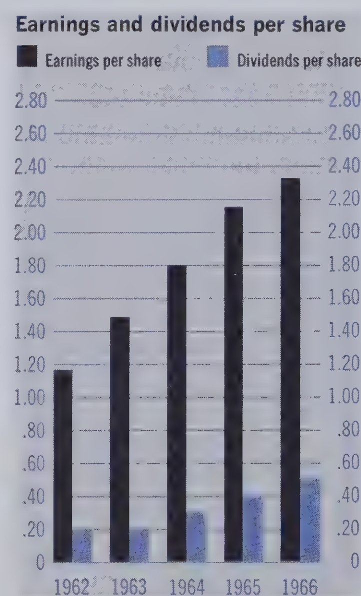
Capital Expansion

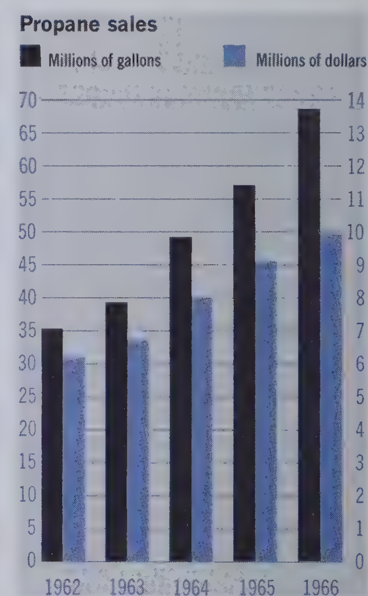
In Canada, twenty-five new branches were established. In Alberta, despite the largest per capita consumption of propane in Canada, an excellent increase in sales was achieved. In Quebec, the Company materially increased the scope of its operations and the improvement in sales and earnings there has been encouraging.

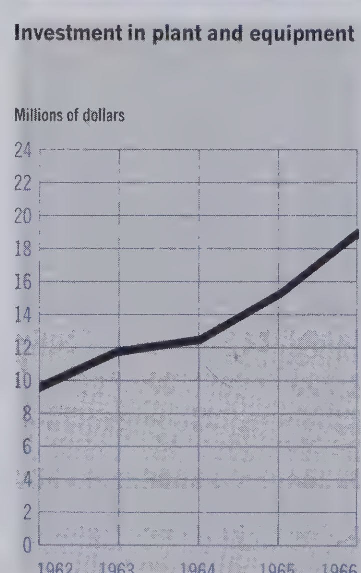
In the U.S. Pacific Northwest, an existing business was purchased and several new branches were established. This entire region is enjoying considerable growth and the Company foresees a higher per capita use of propane.

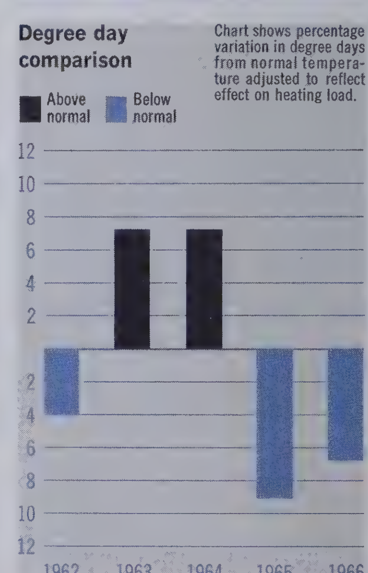
Carburetion

The major tractor carburetion program launched a year ago brought gratifying results and propane tractors are rapidly increasing their share of the Canadian market. It is estimated that propane consumption can gradually be increased to 10% of the farm tractor market and this would represent an industry total of approximately 70 million gallons compared to the present annual total of 6 million.







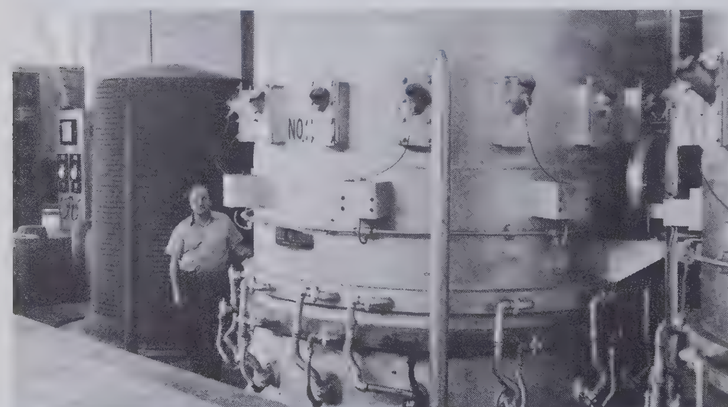


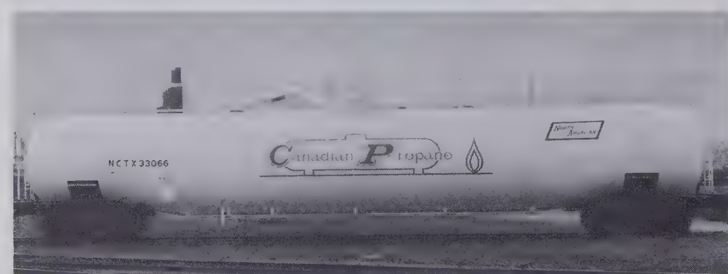
Propane tanks being transported by helicopter to industrial sites deep in the Rockies.

This lumber carrier in Oregon is powered efficiently and economically by propane.

Sales increases are being achieved through greater use of propane-powered equipment on the farm. A flame cultivator is being used to control weeds and disease.


An orchard sprayer and tractor fuelled by propane.


In the metallurgy industry, propane-fired furnaces have proven superior. This wire annealing furnace at Marieville, Quebec requires several million BTU's per hour.



Railroad tank cars now transport 30,000 gallons of propane to bulk storage points.


A hop drying barn in Oregon uses the clean, economical heat from propane.

Product Supply

The National Energy Board's dismissal of the application by Hydrocarbons Pipeline Limited for a permit to build a 600-mile pipeline from the Calgary area to Vancouver is a keen disappointment. The Company continues to believe this common carrier pipeline would provide considerable protection to the long term interest of the Canadian consumer.

By contrast, in view of recently developed export markets to Japan and the United States, the supply of propane for consumption in Canada has become tighter and prices have risen. The Company is taking all steps available to it to protect the interests of its 70,000 customers under these changed conditions.

General

The Board of Directors is proud to recognize the achievements of the members of the Company's able and aggressive management team, who have been with the Company since its inception. Mr. Gerald M. Miller has recently been appointed Vice-President and General Manager of Canadian Hydrocarbons Limited; Mr. Donald C. Ferns has assumed similar office in the Canadian Propane operations, and Mr. Dennis A. Anderson has succeeded Mr. Ferns as Vice-President, Finance. To these men and all the staff, the Directors extend their appreciation for the progress made in the face of challenging conditions.

In May, Mr. Gordon H. Allen, Q.C., was appointed a judge of the Appellate Division of the Supreme Court of Alberta and resigned from the Board. During his association with Canadian Hydrocarbons, both as a Director and Counsel, Mr. Allen contributed much to the progress of the Company. He will therefore be particularly missed by your Board who at the same time wish him continued success in the honoured position which he now fills.

Submitted on behalf of the Board of Directors
Canadian Hydrocarbons Limited

Chairman of the Board *President*

Propane supplies the power to drill an oil well in northern British Columbia.

A wind machine circulates air in this Oregon orchard to help protec crops against frost.

CONSOLIDATED BALANCE SHEET

Canadian Hydrocarbons Limited
(Incorporated under the laws of Canada)
and its Subsidiaries, March 1966 and 1965

Assets	1966	1965
CURRENT:		
Cash	$ 1,244,799	$ 529,764
Short term deposit	—	3,000,000
Marketable securities at cost which approximates market	363,653	363,653
Accounts and notes receivable	3,130,652	2,713,732
Inventories at cost	1,744,726	1,518,188
Prepaid expenses	79,519	45,705
	6,563,349	8,171,042
INVESTMENTS AT COST:		
Shares of affiliates	151,864	12,000
Advances to affiliates	205,180	177,180
Debenture and notes receivable	534,040	153,815
	891,084	342,995
FIXED AT COST (Note 1)	24,680,458	19,880,008
Less accumulated depreciation and depletion	7,838,630	6,631,675
	16,841,828	13,248,333
OTHER:		
Deferred charges less amounts written off	—	133,434
Debt financing expenses less amounts written off	184,144	195,803
Excess of cost of shares of subsidiaries over net book value at dates of purchase	2,351,038	2,318,824
	2,535,182	2,648,061
	$26,831,443	$24,410,431

Liabilities	1966	1965
CURRENT:		
Bank loan—secured	$ 750,000	$ —
Accounts payable and accrued charges	1,863,129	1,423,550
Current maturities of long term debt (Note 3)	495,154	413,588
	3,108,283	1,837,138
LONG TERM DEBT (Note 3)	6,203,339	6,490,912
DEFERRED INCOME AND DEPOSITS	692,364	681,195
SHAREHOLDERS' EQUITY:		
Capital (Note 4)—		
Preferred Shares—		
Authorized—250,000 shares of a par value of $20 each		
Issued less redeemed—171,745 5½% cumulative redeemable shares Series A (1965—175,000 shares)	3,434,900	3,500,000
Common shares—		
Authorized—3,500,000 shares of no par value		
Issued — 797,865 shares (1965—795,565 shares)	5,834,679	5,807,016
	9,269,579	9,307,016
Retained earnings (Notes 4 and 5)	7,557,878	6,094,170
	16,827,457	15,401,186
CONTINGENT LIABILITY (Note 7)		
	$26,831,443	$24,410,431

On behalf of the Board:

, Director

, Director

(See accompanying notes)

Auditors' Report

To the Shareholders of Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and its subsidiaries as at March 31, 1966 and the consolidated statements of earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the statements mentioned above present fairly the financial position of Canadian Hydrocarbons Limited and its subsidiaries at March 31, 1966 and the results of their operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
May 20, 1966.

Clarkson, Gordon & Co.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

Canadian Hydrocarbons Limited
and its Subsidiaries
Years ended March 31, 1966 and 1965

Earnings	1966	1965
Revenue:		
Sales	$14,788,326	$13,503,067
Installation rentals earned	806,738	653,247
Interest and other income	90,994	104,796
	15,686,058	14,261,110
Expenses:		
Cost of gas and merchandise sold	7,276,205	6,553,678
Operating, selling and administrative expenses	4,506,730	4,298,254
Interest and expense on long term debt	430,670	419,041
Depreciation	1,449,291	1,193,960
Depletion	65,000	54,930
	13,727,896	12,519,863
Earnings from operations	1,958,162	1,741,247
Profit on sales of fixed assets	95,018	61,089
Net earnings for the year (Note 2)	$ 2,053,180	$ 1,802,336
Retained earnings		
Balance at beginning of year	$ 6,094,170	$ 4,887,184
Add net earnings for the year	2,053,180	1,802,336
	8,147,350	6,689,520
Deduct:		
Dividends paid—		
Preferred shares	191,021	80,957
Common shares	398,451	317,936
Expenses of preferred shares issued	—	196,457
	589,472	595,350
Balance at end of year	$ 7,557,878	$ 6,094,170

(See accompanying notes)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Canadian Hydrocarbons Limited
and its Subsidiaries
Years ended March 31, 1966 and 1965

Funds were provided from:	1966	1965
Operations		
Net earnings for the year	$2,053,180	$1,802,336
Add:		
Depreciation and depletion	1,514,291	1,248,890
Other non-cash income and expenses (net)	(59,638)	(62,294)
Total cash flow from operations	3,507,833	2,988,932
Common shares issued	27,663	87,392
Preferred shares issued	—	3,500,000
Additional long term debt	130,689	1,302,825
Other	56,775	59,571
	3,722,960	7,938,720
Funds were applied to:		
Purchase of fixed assets (net)	5,011,473	3,919,050
Notes receivable	380,225	71,675
Payment of dividends—		
Preferred	191,021	80,957
Common	398,451	317,936
Repayment of long term debt	418,262	287,099
Preferred shares redeemed	65,100	—
Other	137,266	285,110
	6,601,798	4,961,827
Increase (decrease) in working capital	$(2,878,838)	$2,976,893

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

Canadian Hydrocarbons Limited
and its Subsidiaries
March 31, 1966

1. Fixed assets

	1966	1965
Customers' installations	$11,773,339	$ 9,302,823
Buildings and equipment	7,108,786	6,034,301
Automotive equipment	3,319,969	2,839,252
Oil and gas properties and equipment	1,995,261	1,284,510
Land	483,103	419,122
	24,680,458	19,880,008
Deduct:		
Accumulated depreciation	7,718,531	6,576,576
Accumulated depletion	120,099	55,099
	7,838,630	6,631,675
	$16,841,828	$13,248,333

2. Income taxes

The companies intend to claim capital cost allowances and the acquisition cost of oil and gas properties in excess of depreciation and depletion recorded in the accounts thereby eliminating income taxes otherwise payable for the year of $1,090,000.

At March 31, 1966 the net book value of depreciable assets and oil and gas properties is $6,560,000 in excess of the amounts upon which depreciation and depletion will be allowed for income tax purposes in the future.

3. Long term debt

	1966	1965
6½% Sinking Fund Debentures, Series A due August 15, 1981, subject to annual sinking fund payments	$3,220,000	$3,290,000
6¼% Sinking Fund Debentures, Series B due December 15, 1982, subject to annual sinking fund payments	1,880,000	1,920,000
6% Bank production loan repayable monthly to September 1972 (secured by gas properties)	1,035,938	1,195,313
5% to 7% notes and mortgages of Canadian Propane Consolidated Limited maturing on various dates to 1975	562,555	499,187
	6,698,493	6,904,500
Less instalments due within one year included in current liabilities	495,154	413,588
	$6,203,339	$6,490,912

Financing expenses are being amortized over the terms of the issues.

4. Capital

During the year ended March 31, 1966 the Company issued 2,300 common shares for $27,663 cash upon exercise of stock options by officers and employees.

At March 31, 1966 options were outstanding to officers and employees to purchase 6,275 common shares at prices ranging from $10.20 to $27.76 per share, exercisable on various dates to March 17, 1972. In addition, 4,675 common shares are reserved for the granting of future options under an Employee Stock Option Plan.

The Series A preferred shares are redeemable at any time at a price not exceeding $21 per share.

Under the annual redemption provisions of the Series A preferred shares, 3,255 shares were purchased for redemption and cancellation during the year ended March 31, 1966 at a cost of $65,100. Accordingly, consolidated retained earnings at March 31, 1966 includes $65,100 designated as "capital surplus" under the provisions of Section 61 of the Canada Corporations Act.

5. Dividends

The Trust Deed securing certain of the Company's long term debt and the provisions attaching to the Series A preferred shares contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which limits the payment of such dividends to an amount which would reduce consolidated retained earnings to 125% of the par value of Series A preferred shares then issued and outstanding.

6. Remuneration of directors

The total remuneration paid during the 1966 fiscal year to directors of the Company in their capacity as director, officer or employee was $42,550.

7. Contingent liability

Customers' finance contracts under discount or guaranteed amount to approximately $131,000.

YEARS IN REVIEW

Canadian Hydrocarbons Limited
and its Subsidiaries

Summary of consolidated statements of earnings for the years ended on the dates shown

	March 31 1966	March 31 1965	March 31 1964	March 31 1963	March 31 1962
REVENUE:					
Sales	$14,788,326	$13,503,067	$12,233,641	$10,411,891	$ 9,472,402
Installation rentals earned	806,738	653,247	590,108	508,071	437,856
Interest and other income	90,994	104,796	27,587	—	—
	$15,686,058	$14,261,110	$12,851,336	$10,919,962	$ 9,910,258
EXPENSES:					
Cost of gas and merchandise sold	$ 7,276,205	$ 6,553,678	$ 6,285,073	$ 5,319,141	$ 4,902,726
Operating, selling and administrative expenses	4,506,730	4,298,254	3,780,224	3,400,956	3,192,793
Interest and expense on long term debt	430,670	419,041	382,350	281,276	181,045
Depreciation and depletion	1,514,291	1,248,890	1,096,236	908,393	729,294
	$13,727,896	$12,519,863	$11,543,883	$ 9,909,766	$ 9,005,858
EARNINGS:					
Earnings from operations	$ 1,958,162	$ 1,741,247	$ 1,307,453	$ 1,010,196	$ 904,400
Profit on sales of fixed assets and investments	95,018	61,089	107,972	81,998	35,446
Earnings before income taxes	$ 2,053,180	$ 1,802,336	$ 1,415,425	$ 1,092,194	$ 939,846
Provision for income taxes	—	—	—	(41,663)	56,987
	$ 2,053,180	$ 1,802,336	$ 1,415,425	$ 1,133,857	$ 882,859
Minority interest in earnings	—	—	—	—	11,041
Net earnings	$ 2,053,180	$ 1,802,336	$ 1,415,425	$ 1,133,857	$ 871,818
Dividends on preferred shares	$ 191,021	$ 80,957	$ —	$ —	$ —
Net earnings applicable to common shares	$ 1,862,159	$ 1,721,379	$ 1,415,425	$ 1,133,857	$ 871,818

Financial and other information

	March 31 1966	March 31 1965	March 31 1964	March 31 1963	March 31 1962
Working capital	$ 3,455,066	$ 6,333,904	$ 3,357,011	$ 3,068,024	$ 2,158,109
Working capital ratio	2.1 to 1	4.4 to 1	3.1 to 1	2.9 to 1	2.2 to 1
Long term debt	$ 6,203,339	$ 6,490,912	$ 5,475,187	$ 5,737,048	$ 3,609,900
Interest coverage before depreciation and depletion	9.3	8.3	7.6	8.3	10.2
Interest coverage after depreciation and depletion	5.8	5.3	4.7	5.0	6.2
Shareholders' equity	$16,827,457	$15,401,186	$10,606,808	$ 9,274,485	$ 8,199,401
Number of preferred shares outstanding	171,745	175,000	—	—	—
Preferred share dividend coverage	10.7	9.4	—	—	—
Number of common shares outstanding	797,865	795,565	783,340	762,065	754,096
Common shareholders' equity per share	$ 16.78	$ 14.96	$ 13.54	$ 12.17	$ 10.87
Earnings per common share	$ 2.33	$ 2.16	$ 1.80	$ 1.48	$ 1.16
Cash flow (net profits + non cash expense — non cash income)	$ 3,507,833	$ 2,988,932	$ 2,364,756	$ 1,875,572	$ 1,577,165
Cash flow per common share	$ 4.40	$ 3.75	$ 3.02	$ 2.46	$ 2.09
Percentage of cash flow to shareholders' equity	20.8%	19.4%	22.3%	20.2%	19.2%
Purchase of fixed assets (net)	$ 5,011,473	$ 3,919,050	$ 1,757,144	$ 2,943,078	$ 2,299,409
Fixed assets including excess cost of shares of subsidiaries	$19,192,866	$15,567,157	$12,841,424	$12,105,298	$10,043,574
Propane sales	$ 9,858,306	$ 9,104,510	$ 8,044,833	$ 6,674,612	$ 6,157,192
Merchandise sales	$ 3,842,570	$ 3,326,952	$ 3,230,125	$ 2,982,902	$ 2,670,567
Propane gallonage sales	68,608,341	57,570,149	48,865,001	39,210,201	35,424,893

Printed in Canada

file

CANADIAN HYDROCARBONS LIMITED

REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1966

1867 1967

CANADIAN HYDROCARBONS LIMITED

Directors
*Richard A. Bethell, Montreal, Quebec
Fernand E. Chenu, Brussels, Belgium
Donald M. Deacon, Unionville, Ontario
J. Howard Kelly, Q.C., Calgary, Alberta
Dr. Courtnay Pitt, Jenkintown, Pennsylvania
Raymond A. Rich, Philadelphia, Pennsylvania
George C. Solomon, Regina, Saskatchewan
J. Grant Spratt, Calgary, Alberta
David R. Williams, Jr., Chagrin Falls, Ohio
**Retired February 9, 1967*

Officers
Raymond A. Rich, Chairman of the Board
Donald M. Deacon, President
Gerald M. Miller, Vice-President and General Manager
Donald C. Ferns, C.A., Vice-President
Dennis A. Anderson, C.A., Vice-President and Treasurer
Frederick T. Phillips, Secretary

HEAD OFFICE:
250 Elveden House, Calgary, Alberta

TRANSFER AGENTS AND REGISTRAR:
Montreal Trust Company

U.S. TRANSFER AGENTS:
Morgan Guaranty Trust Company of New York

U.S. REGISTRAR:
Manufacturers Hanover Trust Company

TRUSTEE AND REGISTRAR FOR DEBENTURES:
The Royal Trust Company

BANKERS:
Bank of Montreal

AUDITORS:
Clarkson, Gordon & Co.

SOLICITORS:
MacKimmie, Matthews, Wood, Phillips & Smith

PRINCIPAL SUBSIDIARIES:
Canadian Propane Consolidated Limited,
CHL Oil & Gas Limited
Canadian Natural Gas Liquids Limited

The Annual General Meeting of the Company is to be held at the Head Office, Thursday, May 18, 1967, at 10.00 a.m.

Ce rapport annuel peut être obtenu en français, du siège social.

NOTICE
Effective January 1, 1967 Canadian Hydrocarbons purchased all the common shares of Great Northern Gas Utilities Ltd. Since the transaction was not effective in 1966, the results of Great Northern have not been consolidated with those of the Company but for informative reasons the annual report of Great Northern for the year ended December 31, 1966 has been reproduced in the back of this report.

HIGHLIGHTS

	Years ended December 31 1966	1965	% Increase (or Decrease)
Gross Revenue	$16,971,262	$15,236,190	11.4%
Gallonage L.P.G.	75,658,340	64,402,552	17.5%
Net Earnings	$ 1,985,350	$ 1,960,629	1.3%
Working Capital	$ 3,055,979	$ 3,643,018	(11.1%)
Working Capital Ratio	1.7:1	2.7:1	
Depreciation & Depletion	$ 1,694,168	$ 1,442,455	17.5%
Long Term Debt	$ 6,644,335	$ 6,130,903	8.4%
Preferred Shares Outstanding	168,265	172,575	(2.5%)
Dividends Paid on Preferred Shares	$ 187,128	$ 191,861	(2.5%)
Common Shares Outstanding	798,415	796,415	.3%
Cash Flow per Common Share	$ 4.56	$ 4.19	8.8%
Earnings per Common Share	$ 2.25	$ 2.22	1.6%
Dividends Paid on Common Shares	$ 399,070	$ 358,098	11.4%
Equity per Common Share	$ 17.85	$ 16.11	10.8%

The Radium Hot Springs Hotel, B.C. uses propane exclusively for heating comfort and convenient restaurant facilities.

REVIEW OF THE YEAR

To the Shareholders:

Canadian Hydrocarbons Limited has completed another successful year in spite of a considerable increase in product costs. All of these costs could not be passed on to customers and thus had an adverse effect on earnings.

Financial

Gross revenues attained an all-time high of $16,971,262 for the twelve months ended December 31, 1966 compared with $15,236,190 in the same period of 1965, an increase of 11.4%. Net earnings were $1,985,350 in 1966 which, after preferred dividends is equivalent to $2.25 per common share, compared with $1,960,629 ($2.22 per common share) in 1965. Cash flow was equivalent to $4.56 per share, an increase of 8.8% over $4.19 per share the previous year.

The Company has changed its year end to December 31 because the calendar year provides a reporting period which reduces the effect of the variation caused by a cold winter following a warm winter and vice versa. The calendar year also coincides with the financial year of Great Northern Gas Utilities Ltd., the acquisition of which was reported recently to shareholders.

Despite the pressure of rising costs, greater efficiencies in operation have resulted in the ratio of operating expenses to gross revenues being maintained at 1965 levels.

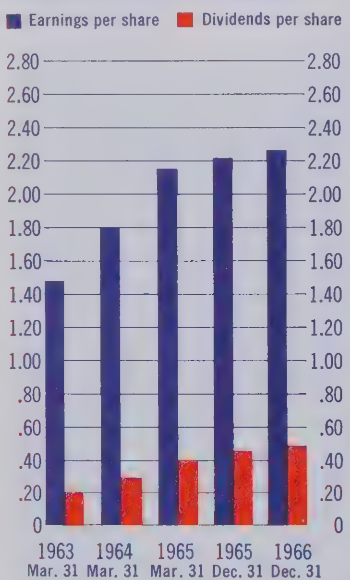
Earnings reported to the shareholders for the six months ended September 30, 1966 included a provision for income taxes. However, the Company subsequently purchased oil and gas properties, acquisition costs of which were written off for tax purposes thereby eliminating income taxes payable for the period ended December 31, 1966.

Marketing

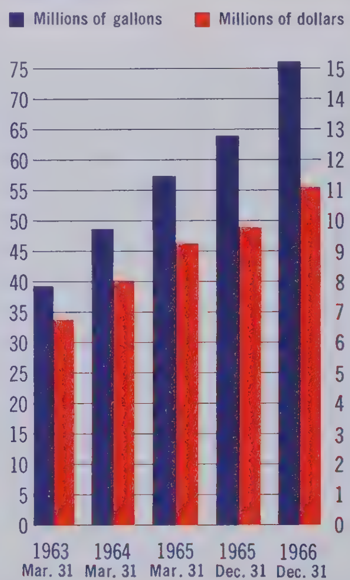
Gallonage of propane sold increased from 64,402,552 gallons to 75,658,340 gallons. The net increase of over 4,000 bulk storage customers was one of the highest in the Company's history. Owing to the increased cost of propane, market growth in the U.S. Pacific Northwest has been slow. In Quebec the Company has continued to grow rapidly. Operating results in both these areas are still below those in Western Canada.

The propane tractor carburetion programme commenced in 1965 established this as an important source of new busi-

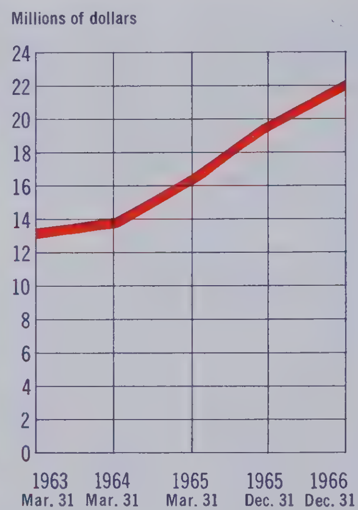
Earnings and dividends per share



Propane sales

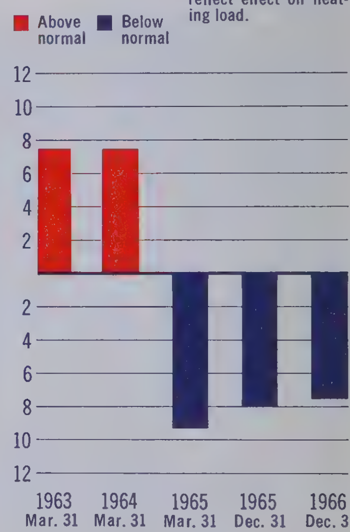


Investment in plant and equipment



Degree day comparison

Chart shows percentage variation in degree days from normal temperature adjusted to reflect effect on heating load.



Dealers and employees keep abreast of modern techniques at a Company carburetion service school.

This new service centre symbolizes the progressive development of the expanding propane market.

ness. It is expected propane will continue to make substantial inroads into the total tractor fuel market, particularly in Alberta.

Capital Expansion

During the year ended December 31, 1966 capital expenditures amounted to $4,172,963 which included customer storage tanks, nine new branch plants and some acquisitions. The Company also continued its policy of investing in oil and gas properties and is continuing to seek out new properties for investment in this phase of the petroleum industry.

Product Supply

Alberta Underground Storage was again used to capacity and is operating successfully, greatly contributing to the Company's outstanding record of uninterrupted supplies to customers in periods of unusually heavy demand. Although product costs have increased rapidly, the improved balance between product supply and demand is resulting in more orderly marketing and has created the incentive necessary for producers to again increase output of propane. We believe adequate supplies of product will continue to be available to meet the Company's growing demands.

Great Northern Gas Utilities Ltd.

Effective January 1, 1967, the Company acquired all the common shares of Great Northern Gas Utilities Ltd. of Edmonton for a consideration of 250,000 common shares and 260,000 second preferred shares ($25 par) of Canadian Hydrocarbons. Great Northern's gas utility operations will add stability and growth to the Company. Its diversity of services is complementary to those of Canadian Hydrocarbons. The acquisition also considerably enlarges the financial base of the Company and brings a pool of talent and resources which should enable it to develop new opportunities for improvement in administrative systems and procedures.

During the coming year the directors foresee a close programme of liaison and improvement in operations with Great Northern which should result in continued growth. However, upward pressures on product and other costs are expected to prevail and these may have an effect on earnings.

Submitted on behalf of the Board of Directors
Canadian Hydrocarbons Limited

Chairman of the Board

President

Drilling rigs powered by propane are being used in increasing numbers for efficient low-cost operation.

The mobile rail and truck terminal at Whitecourt, Alberta shown in these two pictures was installed in forty-eight hours.

Propane-fired stress relieving equipment being used at the Athabasca Tar Sands project at Fort McMurray.

Coal mine shafts at Canmore, Alberta are supplied with fresh air heated by propane gas.

120 housing units and a shopping centre in northern British Columbia are serviced efficiently and economically by propane.

CONSOLIDATED BALANCE SHEET

Canadian Hydrocarbons Limited
and its Subsidiaries
December 31, 1966 and March 31, 1966

Assets

	December 31 1966	March 31 1966
CURRENT:		
Cash	$ 603,144	$ 1,244,799
Marketable securities at cost (quoted market value December 31—$345,000)	396,163	363,653
Accounts and notes receivable	4,135,733	3,130,652
Inventories at cost which is lower than market	2,233,301	1,744,726
Prepaid expenses	92,697	79,519
	7,461,038	6,563,349
INVESTMENTS AT COST:		
Shares of and advances to affiliates	162,480	357,044
Debenture and notes receivable	511,511	534,040
	673,991	891,084
FIXED AT COST (Note 2)	27,499,990	24,680,458
Less accumulated depreciation and depletion	8,953,774	7,838,630
	18,546,216	16,841,828
OTHER:		
Deferred charges less amounts written off	161,227	
Debt financing expenses less amounts written off	180,297	184,144
Excess of cost of shares of subsidiaries over net book value at dates of purchase	2,351,038	2,351,038
	2,692,562	2,535,182
	$29,373,807	$26,831,443

Liabilities

	December 31 1966	March 31 1966
CURRENT:		
Bank loan—secured	$ 1,075,000	$ 750,000
Accounts payable and accrued charges	2,634,291	1,863,129
Current maturities of long term debt (Note 4)	695,768	495,154
	4,405,059	3,108,283
LONG TERM DEBT (Note 4)	6,644,335	6,203,339
DEFERRED INCOME AND DEPOSITS	703,615	692,364
SHAREHOLDERS' EQUITY:		
Capital (Note 5)—		
Authorized— 250,000 first preferred shares of a par value of $20 each		
300,000 second preferred shares of a par value of $25 each		
3,500,000 common shares of no par value		
Outstanding— 168,265 5½% cumulative, redeemable first preferred shares, Series A (March 31—171,745 shares)	3,365,300	3,434,900
798,415 common shares (March 31—797,865 shares)	5,843,088	5,834,679
	9,208,388	9,269,579
Retained earnings (Notes 5 and 6)	8,412,410	7,557,878
	17,620,798	16,827,457
	$29,373,807	$26,831,443

On behalf of the Board:

[signature] Director.

[signature] Director.

(See accompanying notes)

Auditors' Report

To the Shareholders of Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and its subsidiaries at December 31, 1966 and the consolidated statements of earnings, retained earnings and source and application of funds for the nine months ended on that date. We have also examined the consolidated statement of earnings for the years ended December 31, 1966 and 1965. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the statements mentioned above present fairly the financial position of Canadian Hydrocarbons Limited and its subsidiaries at December 31, 1966, the results of their operations and source and application of funds for the nine months ended December 31, 1966 and the results of operations for the years ended December 31, 1966 and 1965, in accordance with generally accepted accounting principles applied on a consistent basis.

Clarkson, Gordon & Co.
Chartered Accountants.

Calgary, Alberta. March 11, 1967.

CONSOLIDATED STATEMENT OF EARNINGS

Canadian Hydrocarbons Limited
and its Subsidiaries
for the nine months ended December 31, 1966
and the years ended December 31, 1966 and 1965

	Nine months ended December 31, 1966	Year ended December 31, 1966	Year ended December 31, 1965
Revenue:			
Sales	$11,224,951	$15,952,090	$14,321,753
Installation rentals earned	674,202	917,063	750,587
Interest and other income	89,836	102,109	163,850
	11,988,989	16,971,262	15,236,190
Expenses:			
Cost of gas and merchandise sold	5,667,684	7,900,130	7,019,137
Operating, selling and administrative expenses	3,514,420	4,962,744	4,379,911
Interest and expense on long term debt	323,397	428,870	434,058
Depreciation	1,197,539	1,579,129	1,383,916
Depletion	91,970	115,039	58,539
	10,795,010	14,985,912	13,275,561
Net earnings for the period (Note 3)	$ 1,193,979	$ 1,985,350	$ 1,960,629

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the nine months ended December 31, 1966

Balance, April 1, 1966		$ 7,557,878
Add net earnings for the period		1,193,979
		8,751,857
Deduct dividends paid:		
Preferred shares	$ 139,843	
Common shares	199,604	339,447
Balance, December 31, 1966		$ 8,412,410

(See accompanying notes)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Canadian Hydrocarbons Limited
and its Subsidiaries
for the nine months ended December 31, 1966

Funds were provided from:	
Operations:	
Net earnings for the nine months	$ 1,193,979
Add depreciation and depletion	1,289,509
Total cash flow from operations	2,483,488
Common shares issued	8,409
Additional long term debt	871,567
Other	53,072
	3,416,536
Funds were applied to:	
Purchase of fixed assets (net)	2,976,005
Payment of dividends:	
Preferred	139,843
Common	199,604
Reduction of long term debt	430,571
Preferred shares redeemed	69,600
	3,815,623
Decrease in working capital during the nine months	$ 399,087

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

Canadian Hydrocarbons Limited
and its Subsidiaries
December 31, 1966

1. Consolidation and change of year-end

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries.

The Company has changed its year-end from March 31 to December 31, commencing December 31, 1966. Accordingly, the consolidated statements of earnings, retained earnings and source and application of funds are for a nine month period. For comparative purposes, consolidated earnings are also shown for the years ended December 31, 1966 and 1965.

2. Fixed assets

	December 31, 1966	March 31, 1966
Customers' installations	$13,005,541	$11,773,339
Buildings and equipment	7,565,178	7,108,786
Automotive equipment	3,485,618	3,319,969
Oil and gas properties and equipment	2,939,052	1,995,261
Land	504,601	483,103
	27,499,990	24,680,458
Deduct:		
Accumulated depreciation	8,741,638	7,718,531
Accumulated depletion	212,136	120,099
	8,953,774	7,838,630
	$18,546,216	$16,841,828

3. Income taxes

The companies intend to claim capital cost allowances and the acquisition cost of oil and gas properties in excess of depreciation and depletion recorded in the accounts thereby eliminating income taxes otherwise payable for the nine months ended December 31, 1966 of $642,000.

At December 31, 1966 the net book value of depreciable assets and oil and gas properties is $7,690,000 in excess of the amount upon which depreciation and depletion will be allowed for income tax purposes in the future.

4. Long term debt

	December 31, 1966	March 31, 1966
6½% Sinking Fund Debentures, Series A, due August 15, 1981, subject to annual sinking fund payments	$ 3,150,000	$ 3,220,000
6¼% Sinking Fund Debentures, Series B, due December 15, 1982, subject to annual sinking fund payments	1,840,000	1,880,000
6% Bank Production Loans, repayable monthly to September 15, 1972 (secured by oil and gas properties)	1,631,406	1,035,938
5% to 7% Notes and Mortgages, maturing on various dates to 1975	718,697	562,555
	7,340,103	6,698,493
Less instalments due within one year included in current liabilities	695,768	495,154
	$ 6,644,335	$ 6,203,339

Long term debt maturities and sinking fund requirements for the next five years are as follows:

1967—$695,768; 1968—$659,637; 1969—$658,845; 1970—$557,592; 1971—$537,308.

Financing expenses are being amortized over the terms of the issues.

5. Capital

By Supplementary Letters Patent dated July 25, 1966 the authorized capital was increased by the creation of 300,000 second preferred shares of a par value of $25 each and the previously authorized 250,000 preferred shares of a par value of $20 each were re-designated as first preferred shares.

Of the authorized first preferred shares, 175,000 shares were designated as 5½% cumulative redeemable first preferred shares Series A. 6,735 of these shares, of an aggregate par value of $134,700, have been redeemed to December 31, 1966 of which 3,480 shares were redeemed during the nine months ended December 31, 1966. Accordingly, consolidated retained earnings at December 31, 1966 includes $134,700 designated as "capital surplus" under the provisions of Section 61 of the Canada Corporations Act.

The redemption provisions require the company to purchase for redemption first preferred shares Series A of a par value of $70,000 in each calendar year, if available on the open market, at a price not exceeding their par value, which requirement is cumulative to a maximum of $140,000 in any calendar year. The company has satisfied its obligations under the redemption provisions to December 31, 1966. In addition, the first preferred shares Series A may be redeemed at any time at a price not exceeding $21 per share.

During the nine months ended December 31, 1966 the company issued 550 common shares for $8,409 cash upon exercise of stock options by officers.

At December 31, 1966 options were outstanding to officers and to employees to purchase 6,000 and 5,025 common shares respectively at prices ranging from $10.20 to $27.76 per share, exercisable on various dates to March 17, 1972.

6. Dividends

The Trust Deed securing certain of the company's long term debt and the provisions attaching to the Series A preferred shares, contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which limits the payment of such dividends to an amount which would reduce consolidated retained earnings to 125% of the par value of Series A preferred shares then issued and outstanding.

7. Additional statutory information

The total remuneration paid during the nine months ended December 31, 1966 to directors of the company, in their capacity as director, officer or employee was $39,017.

8. Subsequent event

Effective January 1, 1967 the company acquired all the outstanding common shares of Great Northern Gas Utilities Ltd. for $91,000 cash, 250,000 common shares of the company valued at $6,062,500 and 260,000 second preferred shares of a par value of $25 each ($6,500,000), representing a total consideration of $12,653,500. The preferred shares were designated by Supplementary Letters Patent dated January 25, 1967 as 6% cumulative redeemable participating second preferred shares Series A.

(Financial statements of Great Northern Gas Utilities Ltd. at December 31, 1966 are included in this Annual Report.)

YEARS IN REVIEW

Canadian Hydrocarbons Limited
and its Subsidiaries

Summary of consolidated statements of earnings for the years ended on the dates shown

	December 31 1966	December 31 1965	March 31 1965	March 31 1964	March 31 1963
REVENUE:					
Sales	$15,952,090	$14,321,753	$13,503,067	$12,233,641	$10,411,891
Installation rentals earned	917,063	750,587	653,247	590,108	508,071
Interest and other income	102,109	163,850	104,796	27,587	—
	$16,971,262	$15,236,190	$14,261,110	$12,851,336	$10,919,962
EXPENSES:					
Cost of gas and merchandise sold	$ 7,900,130	$ 7,019,137	$ 6,553,678	$ 6,285,073	$ 5,319,141
Operating, selling and administrative expenses	4,962,744	4,379,911	4,237,165	3,672,252	3,318,958
Interest and expense on long term debt	428,870	434,058	419,041	382,350	281,276
Depreciation and depletion	1,694,168	1,442,455	1,248,890	1,096,236	908,393
	$14,985,912	$13,275,561	$12,458,774	$11,435,911	$ 9,827,768
EARNINGS:					
Earnings before income taxes	$ 1,985,350	$ 1,960,629	$ 1,802,336	$ 1,415,425	$ 1,092,194
Provision for income taxes	—	—	—	—	(41,663)
Net earnings	$ 1,985,350	$ 1,960,629	$ 1,802,336	$ 1,415,425	$ 1,133,857
Dividends on preferred shares	187,128	191,861	80,957	—	—
Net earnings applicable to common shares	$ 1,798,222	$ 1,768,768	$ 1,721,379	$ 1,415,425	$ 1,133,857

Financial and other information

	December 31 1966	December 31 1965	March 31 1965	March 31 1964	March 31 1963
Working capital	$ 3,055,979	$ 3,643,018	$ 6,333,904	$ 3,357,011	$ 3,068,024
Working capital ratio	1.7 to 1	2.7 to 1	4.4 to 1	3.1 to 1	2.9 to 1
Long term debt	$ 6,644,335	$ 6,130,903	$ 6,490,912	$ 5,475,187	$ 5,737,048
Interest coverage before depreciation and depletion	9.6	8.8	8.3	7.6	8.3
Interest coverage after depreciation and depletion	5.6	5.5	5.3	4.7	5.0
Shareholders' equity	$17,620,798	$16,284,232	$15,401,186	$10,606,808	$ 9,274,485
Number of preferred shares outstanding	168,265	172,575	175,000	—	—
Preferred share dividend coverage	10.6	10.2	9.4	—	—
Number of common shares outstanding	798,415	796,415	795,565	783,340	762,065
Common shareholders' equity per share	$ 17.85	$ 16.11	$ 14.96	$ 13.54	$ 12.17
Earnings per common share	$ 2.25	$ 2.22	$ 2.16	$ 1.80	$ 1.48
Cash flow (net profits + non cash expense — non cash income)	$ 3,643,275	$ 3,337,663	$ 2,988,932	$ 2,364,756	$ 1,875,572
Cash flow per common share	$ 4.56	$ 4.19	$ 3.75	$ 3.02	$ 2.46
Percentage of cash flow to shareholders' equity	21.1%	20.5%	19.4%	22.3%	20.2%
Purchase of fixed assets (net)	$ 4,172,963	$ 4,233,387	$ 3,919,050	$ 1,757,144	$ 2,943,078
Fixed assets including excess cost of shares of subsidiaries	$20,897,254	$18,372,387	$15,567,157	$12,841,424	$12,105,298
Propane sales	$11,097,023	$ 9,695,404	$ 9,104,510	$ 8,044,833	$ 6,674,612
Merchandise sales	$ 3,649,975	$ 3,498,432	$ 3,326,952	$ 3,230,125	$ 2,982,902
Propane gallonage sales	75,658,340	64,402,552	57,570,149	48,865,001	39,210,201

BOARD OF DIRECTORS

Fernand E. Chenu
Brussels, Belgium

E. Jacques Courtois, Q.C.
Montreal, Quebec

Marc H. Dhavernas
Montreal, Quebec

Michael H. Finnell
Calgary, Alberta

Frederick T. Phillips
Calgary, Alberta

Raymond A. Rich
Philadelphia, Pennsylvania

Anthony C. Rooney
Edmonton, Alberta

William Spark
Calgary, Alberta

David R. Williams, Jr.
Chagrin Falls, Ohio

John H. Williams
Tulsa, Oklahoma

OFFICERS

Raymond A. Rich, *Chairman of the Board and Chief Executive Officer*

Anthony C. Rooney, *President*

Eric Sherwood, *Vice-President*

D. Ross McRae, *Vice-President—Propane*

Ernest W. Straus, *Secretary-Treasurer*

SUBSIDIARY COMPANIES

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British Columbia and Yellowknife, N.W.T.

Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba and Saskatchewan

Great Northern Gas Company, Limited
Operating in Ontario

Rockgas Utilities Ltd.
Operating in British Columbia

Rockgas Propane Ltd.
Operating in British Columbia

North Shore Propane Company Limited
Operating in Ontario

TRANSFER AGENTS AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto and Edmonton

TRUSTEE FOR DEBENTURES

Montreal Trust Company,
Montreal, Toronto and Edmonton

HEAD OFFICE

10975 – 124th Street, Edmonton, Alberta

HIGHLIGHTS

	1966	1965	1964	1963
Customers at Year End	51,833	48,928	46,144	43,754
Natural Gas Sales (Thousands of cubic feet)	6,262,492	5,827,574	4,980,469	4,270,844
Propane-Air Gas Sales (Thousands of cubic feet)	231,824	215,962	149,053	115,302
Propane (Gallons)	23,818,530	20,311,593	15,544,642	12,573,403
Electricity (KWH)	11,297,812	10,603,028	9,813,075	9,190,079
Revenue and Other Income	$11,061,919	$ 9,869,262	$ 8,324,526	$ 7,400,420
Cash Flow	$ 1,910,257	$ 1,744,534	$ 1,516,818	$ 1,318,107
Net Income	$ 971,044	$ 909,611	$ 782,878	$ 676,612
Annual Additions to Plant (net)	$ 2,540,730	$ 2,318,799	$ 2,131,328	$ 1,070,811
Gross Plant	$24,578,778	$23,077,080	$20,871,690	$18,740,362
Miles of Pipeline (Transmission and Distribution)	1,006	937	898	815

TO THE SHAREHOLDERS:

The past year's results show a continuing favorable trend in earnings. Operating revenue, net income, cash flow, sales volumes of gas, propane and electricity and number of customers served during 1966 were the highest achieved to date.

Financial

Operating revenues exceeded $10,000,000 for the first time with total revenues and other income amounting to $11,061,919, an increase of $1,192,657 or 12.1% higher than 1965. Net income for the year was $971,044, an increase of $61,433 or 6.75% over the preceding year. After payment of dividends of $232,500 on preferred shares, earnings attributable to common shares were $738,544, an increase of $158,933 over the preceding year.

While the increases in gross revenues and net income for the year are gratifying, higher operating costs are being experienced, reflecting the higher costs of labour and materials as well as the Company's continuing expansion. Management continues to take all indicated and reasonable steps to control operating costs in line with maintaining efficient operations in order that improvement in future earnings and the continuance of fair and competitive rates and prices may be realized. The Company will continue to use all reasonable and effective means to attract new customers and to furnish all customers with excellent service at all times.

A table of highlights and illustrative charts are provided in this report showing the growth in sales of commodities and service which the Company sells.

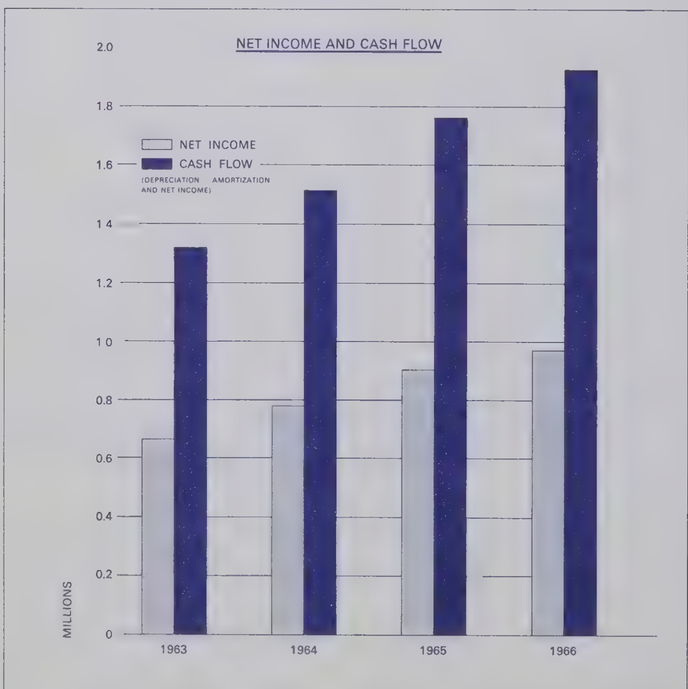
During the year, the Company's investment in Canadian Hydrocarbons Limited was sold and a non-recurring gain of $1,219,496 was realized. The proceeds from the sale of this investment were used to purchase for cancellation all the outstanding Initial Series Preferred Shares and repay the 6% note due to a shareholder.

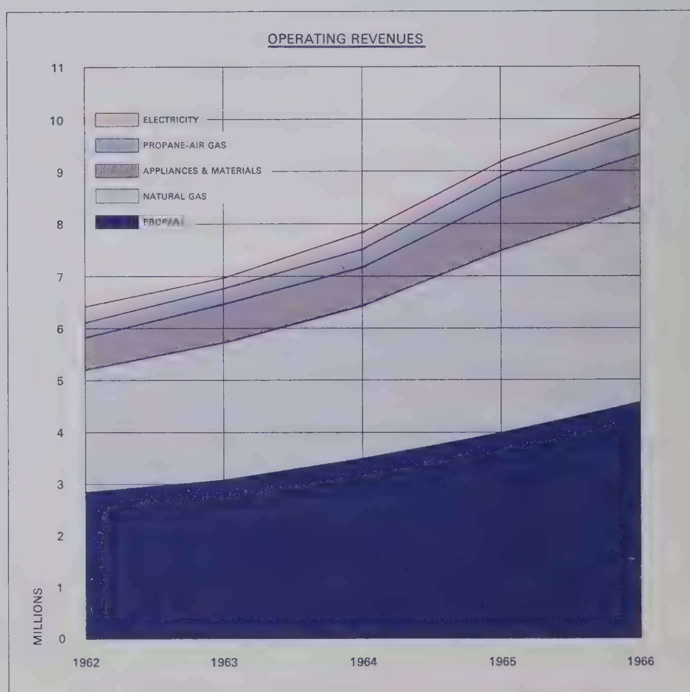
In August $3,000,000—6% Series "A" Preferred Shares were issued and the proceeds in part were used to reduce the bank loan and $1,900,000 has been set aside for general corporate purposes.

At the year end, working capital, before providing for bank loans and bankers acceptances of $1,880,000, was $3,326,234, an increase of $2,136,220 over the comparable figure of the preceding year end.

Gas and Product Supply

With the commencement of service to a new large industrial customer in Brandon, Manitoba, most of our gas purchase contracts for that Province were re-negotiated and because of a more favorable load factor considerable savings will result. It is estimated that this customer, a fertilizer plant, will





use ten million cubic feet of gas per day as a feed stock. This plant should be operating at full capacity shortly.

In Alberta, we have contracted with two producers for additional supplies of natural gas and have connected to two new gas wells which are being operated by your Company.

The Company now operates eighteen gas wells in Alberta and with the gas under contract from other gathering systems or pipelines has call on sufficient supply to meet anticipated demand.

The Company continues to contract for propane on a relatively short-term basis, but no difficulty is expected in being able to purchase our full requirements on favorable terms.

Capital Expenditures

Extensions and improvements to existing plant were made in all franchise areas. Three new communities in Manitoba were connected and are being served by natural gas and a piped propane system was installed in Rumble Beach, British Columbia. A large number of our propane plants were expanded and two new branches were opened during the year. Total additions to plant amounted to $2,650,889.

Construction has been started on a new office, warehouse propane storage plant and service centre in Burnaby, British Columbia. These new premises will accomodate the head office personnel of Rockgas Propane Ltd. and the centralization of operations presently established at three locations in and adjacent to Vancouver. On completion, the building will be sold and leased back to Rockgas Propane.

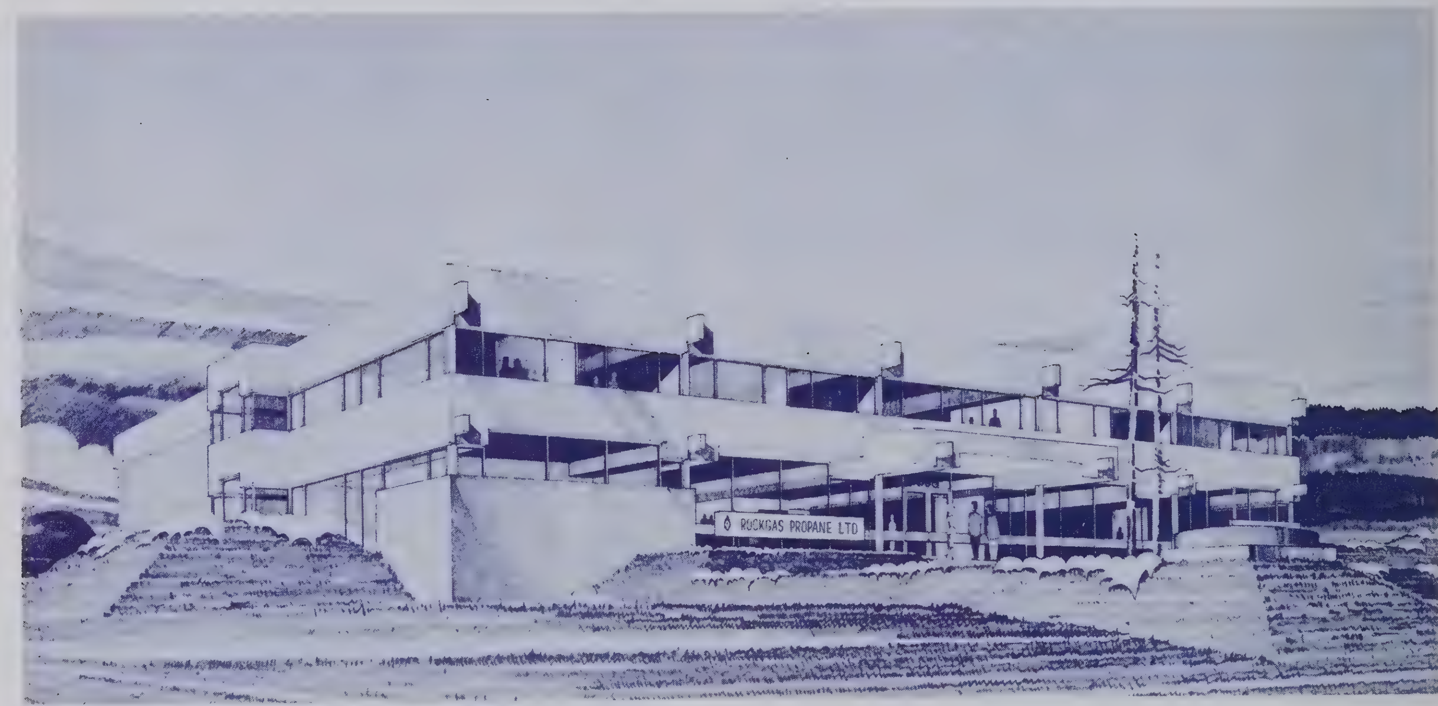
Pacific Northern Gas Ltd.

As reported last year, your Company is a co-sponsor of Pacific Northern Gas Ltd., a British Columbia company, formed to construct and operate a 430 mile pipeline from north of Prince George, British Columbia to Prince Rupert, with laterals to Kitimat and Smithers and distribution systems to service fourteen communities in the area. Pacific Northern has now been granted a Certificate of Public Convenience and Necessity by the Public Utilities Commission of British Columbia and is proceeding with plans to finance and construct the required facilities.

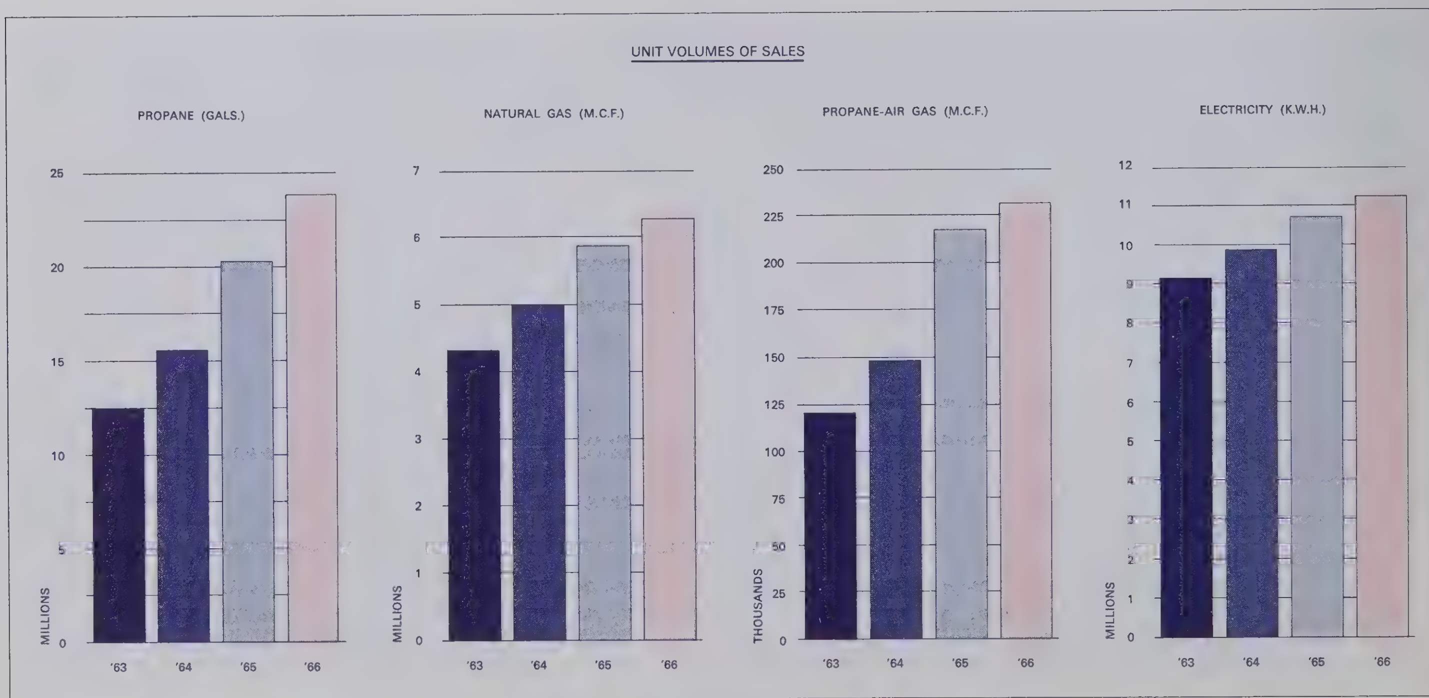
A long-term contract for the sale of gas to a large industrial customer has been negotiated and discussions are taking place with two additional large industrial customers. Agreements with the respective towns are expected to be concluded shortly.

The areas to be served by Pacific Northern have been experiencing rapid growth. The increased pulp and paper mill capacity constructed during 1966 and that projected over the next five years together with the existing and projected lumbering and mining industry in the area make

City of Brandon, Manitoba, served natural gas by a subsidiary of Great Northern Gas Utilities Ltd.



Office, Warehouse and Service Centre under construction in Burnaby, British Columbia, for Rockgas Propane Ltd., a subsidiary of Great Northern Gas Utilities Ltd.



the future of Pacific Northern Gas both promising and exciting.

Future

The capital expenditures program for 1967 will be in the general order of $3,000,000 providing for our continuing growth through expansion of present facilities and additions to the number of communities to be served.

The operations of your Company extending from the Pacific Ocean in the West to Ontario in the East and with our electrical distribution system in Yellowknife, N.W.T., recently established as the Capital and Centre of Government for the North West Territories, provide an excellent area for continued expansion in the commodities and services it provides its customers. We hold a high degree of confidence in the Company's future and its ability to participate in the future of Canada.

General

Vacancies on the Board of Directors created by the resignations of Gordon H. Allen, Q.C., Richard A. Bethell and Charles E. Garnett, were filled by the appointment to the Board of Marc H. Dhavernas, Michael H. Finnell and Frederick T. Phillips.

Subsequent to the year end, Canadian Hydrocarbons Limited acquired all the outstanding common shares of the Company from Elwill Development Ltd. As a result of this transaction, Elwill Development Ltd. will own approximately 55% of the outstanding common stock of Canadian Hydrocarbons Limited.

Your Company will continue to maintain its separate corporate entity. However, it is expected that with the larger financial base to work from and the increased pool of talent, opportunities for new investments will occur and improvements in procedures and systems will be achieved.

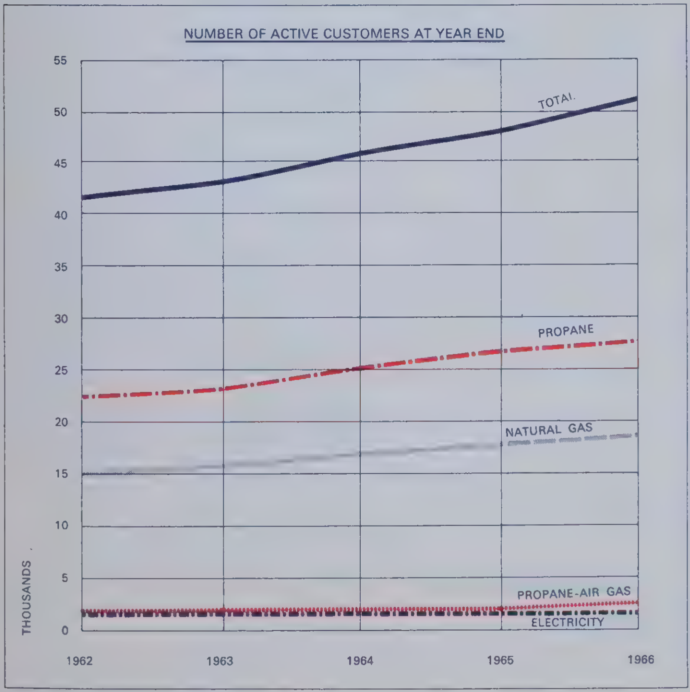
To all the employees of the Company for their continued efficient and loyal service, we express the sincere appreciation of the Directors.

Chairman of the Board

Anthony C. Rooney

President

Edmonton, Alberta, April 13, 1967



Yellowknife, Capital of the Northwest Territories, with electric service provided by Plains-Western Gas & Electric Co. Ltd., a subsidiary of Great Northern Gas Utilities Ltd.

CONSOLIDATED BALANCE SHEET, December 31, 1966

(with comparative figures at December, 1965)

ASSETS	1966	1965
Properties — at cost (Note 1):		
Transmission lines, distribution systems, propane stations, service equipment, gas wells, land, buildings, transportation equipment, franchises and gas contracts	$24,578,778	$23,077,080
Less accumulated depreciation and depletion	6,105,127	5,715,748
	18,473,651	17,361,332
Investments — at cost:		
Marketable securities (quoted $14,640; 1965 $7,134,000)	2,440	5,693,394
Other	1,000	1,000
Mortgages	108,526	107,058
	111,966	5,801,452
Deferred receivables — leases	157,167	110,169
5% special refundable tax	55,000	—
Current assets:		
Cash	364,130	238,866
Short-term investments	1,900,000	—
Accounts receivable	2,132,452	1,676,669
Conditional sales agreements	135,076	89,095
Inventories of appliances and materials at lower of cost or net realizable value	896,015	740,521
Prepaid expenses	140,283	117,051
	5,567,956	2,862,202
Deferred charges:		
Share issue costs and unamortized incorporation costs	—	98,273
Development costs	41,421	18,749
Conversion and plant costs (Note 2)	169,967	173,087
Unamortized debenture issue costs and discounts	—	306,392
	211,388	596,501
	$24,577,128	$26,731,656

The attached notes are an integ

LIABILITIES	1966	1965
Capital stock and surplus:		
Capital stock (Note 3) —		
Preferred:		
Authorized —		
250,000 shares of a par value of $25, issuable in series		
Issued and fully paid —		
120,000 cumulative redeemable 6% series A with a par value of $25, issued during 1966 for cash	$ 3,000,000	$ —
300,000 cumulative redeemable 5½% initial series redeemed in 1966 at par	—	6,000,000
Common:		
Authorized —		
5,000,000 shares of no par value		
Issued and fully paid —		
3,130,000 shares	6,034,970	6,034,970
Surplus (Note 4)	1,506,518	1,165,558
	10,541,488	13,200,528
Customers' contributions in aid of construction	249,149	203,755
Term debt (Note 5)	8,957,437	10,187,250
Deferred liabilities:		
Unearned lease income on propane tanks	424,365	405,001
Dealers' and customers' refundable deposits	282,967	252,934
	707,332	657,935
Current liabilities:		
Bank loan (secured)	1,480,000	810,000
Bankers' acceptances (secured)	400,000	—
Accounts payable	1,716,307	1,054,212
Income taxes payable	233,885	246,810
Current instalments on term debt	39,812	99,417
Accrued interest	251,718	271,749
	4,121,722	2,482,188
	$24,577,128	$26,731,656

On behalf of the Board:

R. A. Rich, *Director*

Anthony C. Rooney, *Director*

part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME for the year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Operating revenue:		
Sales	$10,118,433	$ 9,117,042
Sundry	776,149	573,507
	10,894,582	9,690,549
Expenses:		
Cost of sales	4,512,812	3,927,904
Operating, selling and administrative expenses	3,513,966	3,077,131
Interest	638,703	629,477
Depreciation and amortization	952,394	849,139
	9,617,875	8,483,651
Operating income	1,276,707	1,206,898
Other income	167,337	178,713
Income before income taxes	1,444,044	1,385,611
Income taxes (Note 6)	473,000	476,000
Net income for the year	$ 971,044	$ 909,611

CONSOLIDATED STATEMENT OF SURPLUS for the year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Earned surplus:		
Balance, beginning of year	$1,075,858	$ 871,847
Net income for the year	971,044	909,611
Gain on sale of investment	1,219,496	—
	3,266,398	1,781,458
Dividends paid —		
Preferred	232,500	330,000
Common	500,800	375,600
	733,300	705,600
Write-off of deferred expenses and intangible assets —		
Share issue costs and unamortized incorporation costs	321,869	—
Unamortized debenture issue costs and discounts	304,672	—
Integration and lease value	489,739	—
	1,116,280	—
Balance, end of year	1,416,818	1,075,858
Excess of book value over cost of investment in subsidiary companies at acquisition	89,700	89,700
	$1,506,518	$1,165,558

The attached notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the year ended December 31, 1966

(with comparative figures for 1965)

	1966	1965
Funds were provided from:		
Operations –		
Net earnings for the year	$ 971,044	$ 909,611
Add:		
Depreciation and amortization	952,394	849,139
Other – non-cash income and expenses (net)	(13,181)	(14,216)
Total cash flow from operations	1,910,257	1,744,534
Preferred shares issued	3,000,000	—
Issue of 6% sinking fund debentures	—	9,000,000
Sale of investments	6,910,475	—
Other	50,625	41,169
	11,871,357	10,785,703
Funds were applied to:		
Purchase of fixed assets (net)	2,540,730	2,318,799
Preferred shares purchased for cancellation	6,000,000	—
Repayment of term debt	1,229,813	3,870,355
Payment of dividends –		
Preferred	232,500	330,000
Common	500,800	375,600
Share and debenture issue costs	223,597	321,868
5% special refundable tax	55,000	—
Other	22,697	18,239
	10,805,137	7,234,861
Increase in working capital	$ 1,066,220	$ 3,550,842

The attached notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, December 31, 1966

NOTE 1. PROPERTIES:

Properties are stated at cost except as to appraisals increasing previously stated values by $469,883, subsequently reduced by $181,915 of depreciation charged to operations. These appraisals were reflected in the books of the respective subsidiaries prior to acquisition by the company.

NOTE 2. CONVERSION AND PLANT COSTS:

The total of $169,967 is to be amortized in the following manner –

(a) The cost of conversion of customer appliances from manufactured gas to propane - air gas in the amount of $114,977, and changes to the distribution system in the amount of $36,269 are to be amortized commencing in the year in which natural gas is introduced.

(b) Retirement of a gas plant in the amount of $18,721 to be amortized at an annual rate of $3,120.

NOTE 3. CAPITAL STOCK:

Preferred shares –

Supplementary letters patent dated June 30, 1966, cancelled 50,000 unissued preferred shares of the par value of $20, created 250,000 preferred shares of the par value of $25 issuable in series and designated 120,000 such shares as 6% cumulative redeemable preferred shares series A.

The series A preferred shares are redeemable at any time at a price of $26.25 per share plus accrued and unpaid dividends.

During the year the company purchased for cancellation 300,000 cumulative redeemable preferred shares, 5½% initial series, of the par value of $20.

NOTE 4. DIVIDENDS:

Provisions attaching to the series A preferred shares limit the declaration and payment of cash dividends on common shares to the consolidated net earnings of the company and its subsidiaries earned after December 31, 1965.

NOTE 5. TERM DEBT:

	1966	1965
6% sinking fund debentures, series A due January 15, 1985	$ 8,910,000	$ 9,000,000
6% notes payable due to shareholders and payable on demand	—	1,100,000
5% note due 1967	24,000	101,000
5% agreement payable	—	6,605
5½% notes payable 1967-1970	63,249	79,062
	8,997,249	10,286,667
Less current instalments shown as a current liability	39,812	99,417
	$ 8,957,437	$10,187,250

Under the provisions of the trust indenture payments to the sinking fund trustee are required so as to retire debentures as follows:

	Annual retirement	Total to be retired
1968-1970	$ 90,000	$ 270,000
1971-1974	180,000	720,000
1975-1978	270,000	1,080,000
1979-1982	360,000	1,440 000
1983-1984	450,000	900,000
		$ 4,410,000

NOTE 6. INCOME TAXES:

Income taxes otherwise payable have been reduced by $1,819,000 of which $191,000 pertains to the current year, by claiming capital cost allowance in excess of depreciation recorded in the accounts.

NOTE 7. OTHER STATUTORY INFORMATION:

Remuneration of directors as directors, officers or employees of the company during the year amounted to $51,000.

AUDITORS' REPORT

To the Shareholders of
GREAT NORTHERN GAS UTILITIES LTD.:

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and its subsidiary companies as at December 31, 1966 and consolidated statements of income and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and surplus present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned consolidated financial statements, presents fairly the sources and applications of funds of the companies for the year ended December 31, 1966.

CLARKSON, GORDON & CO.
Chartered Accountants

February 24, 1967

GAS SERVICE COAST TO COAST

With the purchase of Great Northern Gas Utilities Ltd., Canadian Hydrocarbons is serving customers from the Atlantic to the Pacific.

Distribution Facilities

The following lists the extensive facilities now available through the company and its subsidiaries:

Piped gas franchises	33
Retail branches	118
Storage points	29
Consignee Operated Plants	52
Railway Tank Cars	111
Highway Transports	35
Bulk Propane Delivery Trucks	214
Service Trucks and Vehicles	285
Employees	706
Customers	126, 756
Miles of Pipeline (Transmission and Distribution)	1006

Processing Facilities

Canadian Natural Gas Liquids Limited operates a gas processing plant and gathering system in the Acheson Field on the outskirts of Edmonton, Alberta. This facility processed approximately 1,900,000 Mcf of gas during the year ended December 31, 1966. This plant is a major source of propane in the immediate Edmonton area.

Storage Facilities

The Company owns a 40% interest in Alberta Underground Storage Limited, which provides the Company with underground storage space for approximately 12,000,000 gallons. It continues to be an important factor in meeting emergency demand situations.

In addition, the combined field storage at customers' locations is 25,047,500 gallons and above ground storage at plant locations is 3,986,600 gallons.

Specialized Facilities

Subsidiaries of Great Northern Gas Utilities Ltd. have a 90,000 gallon barge for the delivery of propane to coastal points of British Columbia and to Vancouver Island, and twelve pieces of heavy construction equipment for the installation and maintenance of gas transmission and distribution systems.

Retail Branches

Yukon
Watson Lake
Whitehorse

British Columbia
Abbotsford
Burns Lake
Castlegar
Chilliwack
Courtenay
Cranbrook
Creston
Dawson Creek
Duncan
Endako
Fort Nelson
Fort St. John
Gibsons
Golden
Houston
Invermere
Kamloops
Kelowna
Kitimat
Monte Creek
Nanaimo
Nelson
Newton
Penticton
Port Alberni
Port McNeill
Powell River
Prince George
Prince Rupert
Quesnel
Revelstoke
Rumble Beach
Salmon Arm
Smithers
Terrace
Valemont
Vancouver
Vanderhoof
Vernon
Victoria
Williams Lake

Alberta
Athabasca
Barrhead
Bow Island
Brooks
Calgary
Calmar
Camrose
Cardston
Castor
Drayton Valley
Drumheller
Edmonton
Edson
Fort Macleod
Fort McMurray
Grande Prairie
High Prairie
High River
Innisfail
Jasper
Leduc
Lethbridge
Lloydminster
Morinville
Medicine Hat
Oyen
Peace River
Ponoka
Red Deer
St. Paul
Stettler
Three Hills
Two Hills
Valleyview
Westlock
Willingdon
Wrentham

Saskatchewan
Assiniboia
Estevan
Humboldt
Kindersley
Meadow Lake
Melfort
Moose Jaw
North Battleford
Prince Albert
Regina
Rosetown
Saskatoon
Swift Current
Weyburn
Yorkton

Manitoba
Altona
Beausejour
Brandon
Carberry
Carman
Dauphin
Dominion City
Elm Creek
Letellier
Morden
Plum Coulee
Shoal Lake
St. Boniface
St. Joseph
Swan River
Virden
Winkler
Winnipeg

Ontario
Blind River
Chapleau
Espanola
Fort Frances
Fort William
Kenora
Sault Ste. Marie

Vermilion Bay
Wawa

Quebec
Amqui
Grande Rivière
Hauterive
Mont-Joli
Montreal
Rimouski
Sept-Iles

New Brunswick
Campbellton

Northwest Territories
Hay River
Yellowknife

United States
Longview, Wash.
Vancouver, Wash.
Grants Pass, Ore.
Hood River, Ore.
Klamath Falls, Ore.
McMinnville, Ore.
Medford, Ore.
Springville, Ore.

Storage Points

British Columbia
Blue River
Fraser Lake
Grand Forks

Alberta
Banff
Bonnyville
Cremona
Rainbow Lake
Wainwright

Quebec
Pointe à la Croix

Saskatchewan
Abbey
Coronach
Creelman
Eatonia
Esterhazy
Golden Prairie
Gull Lake
Kamsack
Mendham
Oxbow
Richmound
Sceptre
Senate
Shaunavon
Torquay
Waskesiu

United States
Mossyrock
Sutherlin

Consignee Operators

British Columbia
Nakusp

Alberta
Boyle
Calgary
Cardston
Claresholm
Crossfield
Edmonton
Freedom
Hanna
High Level
Hughenden
Mayerthorpe
Milk River
Olds
Pincher Creek
Red Deer
Rocky Mountain House
Taber
Vermilion
Vulcan
Wetaskiwin
Wildwood

Saskatchewan
Carlyle
Climax
Cutknife
Hudson Bay
Lac la Ronge
Leader
Maple Creek
Regina
St. Walburg
Saskatoon

Manitoba
Gimli
Killarney
Morris
Portage la Prairie
Souris

Ontario
Atikokan
Kapuskasing

Quebec
Marieville
Matane
Montreal
New Richmond
Quebec City
Richmond
Rimouski
St. Felicien

Yukon and Alaska
Haines

Printed in Canada